Second Quarter Report ▪ **June 30, 2020**

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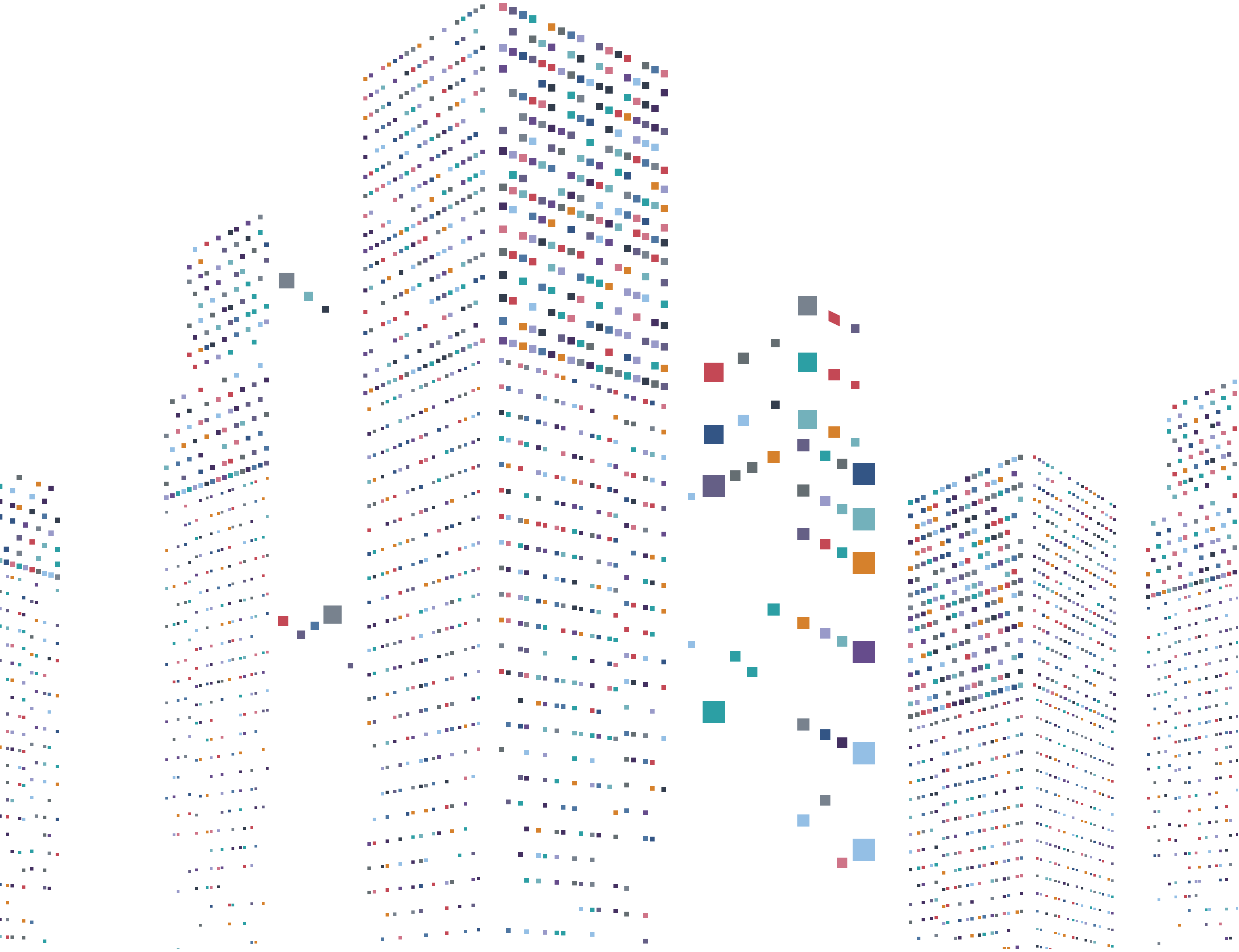

ACCORD FINANCIAL

Message From the President and CEO

Simon Hitzig

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the quarter and six months ended June 30, 2020 together with comparative figures for the same period of 2019. These financial statements have not been reviewed by the Company's auditors, but have been reviewed and approved by its Audit Committee and Board of Directors.

Net earnings attributable to the Company's shareholders rose by 95% or $2,121,000 to a quarterly record $4,343,000 in the second quarter of 2020 compared with $2,222,000 in last year's second quarter. Earnings per share ("EPS") were a quarterly record 51 cents this quarter compared to 26 cents in the second quarter of 2019. Second quarter earnings increased mainly as a result of a recovery of loan losses, a one-time income tax recovery and lower interest expense.

Adjusted net earnings, which comprises net earnings attributable to shareholders before non-operating stock-based compensation, restructuring expenses and business acquisition expenses, were a quarterly record $4,730,000 in the second quarter of 2020 compared to $2,397,000 in the second quarter of 2019. Adjusted EPS were a quarterly record 55 cents versus 28 cents last year.

Revenue totalled $11,270,000 in the second quarter this year compared to $13,991,000 last year. Revenue declined on 12% lower average funds employed and a 4% decrease in average loan yields, as well as reduced other income. Average yields decreased somewhat due to lower Canadian and U.S. prime rates of interest which impacted interest earned on the Company's floating rate loans to clients.

The Company's total funds employed (finance receivables and loans) were $317 million at June 30, 2020 compared to $382 million a year earlier. Average funds employed in the second quarter totalled $341 million compared with $388 million last year. Shareholders' equity was $91 million at June 30, 2020 compared to $90 million at June 30, 2019. Book value per share was $10.61 versus $10.70 a year ago.

Net loss attributable to the Company's shareholders for the first half of 2020 was $1,534,000 compared to net earnings of $3,865,000 in the first half of 2019. Loss per share ("LPS") was 18 cents this year versus EPS of 46 cents in 2019. Net loss resulted mainly from a $5.9 million provision for credit and loan losses, lower revenue, restructuring charges of $996,000 and an impairment of assets held for sale of $897,000. The provision for losses, which comprised net write-offs of $2.1 million and a $3.8 million increase in the Company's allowances for losses,

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and the impairment charge in large part resulted from the current and forecast economic impact of COVID-19 on the Company's portfolio of loans and managed receivables.

Adjusted net loss was $684,000 in the first half of 2020 compared to adjusted net earnings of $4,213,000 earned in the first half of 2019. Adjusted LPS totalled 8 cents compared to adjusted EPS of 50 cents last year.

Revenue decreased to $23,285,000 compared to $26,579,000 in the first half of 2019 on 4% lower average funds employed and a 6% decrease in average loan yields, as well as reduced other income. Average funds employed in the first six months were $352 million compared with $367 million last year.

As expected, the second quarter brought unique challenges. Many of our clients faced operating challenges, declining sales, and uncertainty around the near-term business environment. The outstanding teams throughout Accord's offices worked through these challenges in lock-step with our clients. Our mission is to simplify access to capital so our clients can thrive – that mission has been put to the test.

Accord's total funds employed shrank during the quarter, which reflected a number of factors that we anticipated. We took a cautious approach to signing new business, given the challenges in forecasting potential borrowers' performance and the difficulties in conducting on site due diligence. At the same time many of our factoring and ABL clients recorded dramatically lower sales which translated into fewer receivables available for Accord to finance. To top it off, many of our clients successfully claimed government support, which was used in some cases to pay down our loans. While very few clients left us during the quarter, many are borrowing less than they were earlier in the year. We view all of these factors to be temporary, and expect a steady increase in funds employed over the second half of the year.

In contrast, Accord's net earnings marked an all-time record quarterly high. But a look below the surface reveals some contributing factors that will not be repeated. Our team in Chicago successfully worked out of a troubled account, notching a multi-million dollar loan loss recovery. Our team in Greenville, SC took advantage of COVID-relief changes to the U.S. tax rules, which led to a significant income tax recovery. And our overhead, in particular travel and entertainment, remained in check owing to COVID-19 related restrictions. These are all positive developments, in particular as they boost Accord's equity; however, they don't predict future earnings.

Our primary goal throughout this challenging period has been to protect the portfolio from large losses – mission accomplished. As the economy has started to reopen, we've generated renewed activity in our new business pipelines, which sets us up for a strong second half.

I am pleased to announce that Accord recently launched its participation in the Export Development Canada (EDC) Business Credit Availability Program (BCAP) Guarantee. The EDC BCAP Guarantee provides eligible small- and medium-sized Canadian companies with loans of up to $6.25 million. This partnership with EDC supports Accord's commitment to entrepreneurs from coast to coast, and bolsters the Company's growth path as the economy reopens. This program is a terrific tool to help companies weather the storm, and keep our economy moving forward.

As I wrote last quarter, we know from experience that an economic disruption creates growth opportunities in commercial finance. Accord is well positioned to capitalize on these opportunities as the business environment improves. We entered 2020 with strong momentum, focused on our strategic plan, and aimed at accelerating Accord's growth trajectory. We are confident that we'll finish 2020 in exactly the same way.

At the Board of Directors meeting held today, a quarterly dividend of 5 cents per common share was declared, payable September 1, 2020 to shareholders of record August 14, 2020.

Simon Hitzig
President and Chief Executive Officer
July 29, 2020

Management's Discussion & Analysis of Results of Operations and Financial Condition ("MD&A")

Quarter and six months ended June 30, 2020 compared with quarter and six months ended June 30, 2019

Stuart Adair

FINANCIAL HIGHLIGHTS

(unaudited, in thousands except average funds employed, earnings per share and book value per share)	Three months ended June 30 2020	2019	Six months ended June 30 2020	2019
Average funds employed (millions)	**$ 341**	$ 388	**$ 352**	$ 367
Revenue	**11,270**	13,991	**23,285**	26,579
Earnings before income tax	**3,822**	2,912	**(5,089)**	4,848
Net earnings (loss) attributable to shareholders	**4,343**	2,222	**(1,534)**	3,865
Adjusted net earnings (loss)	**4,730**	2,397	**(684)**	4,213
Earnings (loss) per common share (basic and diluted)	**0.51**	0.26	**(0.18)**	0.46
Adjusted earnings (loss) per common share (basic and diluted)	**0.55**	0.28	**(0.08)**	0.50
Book value per share (June 30)			**10.61**	10.70

OVERVIEW

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the quarter and six months ended June 30, 2020 compared with the quarter and six months ended June 30, 2019 and, where presented, the quarter and six months ended June 30, 2018. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at July 29, 2020, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarters and six months ended June 30, 2020 and 2019, which are included as part of this 2020 Second Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2019 audited consolidated financial statements and notes thereto included in the Company's 2019 Annual Report.

All amounts discussed in this MD&A are expressed in Canadian dollars unless otherwise stated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Please refer to the Critical Accounting Policies and Estimates section below and notes 2 and 3 to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements in accordance with IFRS. Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company's profile with SEDAR at www.sedar.com.

The following discussion contains certain forward-looking statements that are subject to significant risks and uncertainties that could cause actual results to differ materially from historical results and percentages. Factors that may impact future results are discussed in the Risks and Uncertainties section below.

NON-IFRS FINANCIAL MEASURES

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and elsewhere in the Company's 2020 Second Quarter Report are defined as follows:

i) **Return on average equity ("ROE")** – this is a profitability measure that presents net earnings attributable to shareholders ("shareholders' net earnings") as an annualized percentage of the average shareholders' equity employed in the period to earn the income. The Company includes all components of shareholders' equity to calculate the average thereof;

ii) **Adjusted net earnings, adjusted earnings per common share and adjusted ROE** – adjusted net earnings presents shareholders net earnings before stock-based compensation, business acquisition expenses (namely, business transaction costs and amortization of intangibles) and restructuring expenses. The Company considers these items to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of ongoing operating performance than shareholders' net earnings as it excludes items which do not directly relate to ongoing operating activities. Adjusted (basic and diluted) earnings per common share is adjusted net earnings divided by the (basic and diluted) weighted average number of common shares outstanding in the period, while adjusted ROE is adjusted net earnings for the period expressed as an annualized percentage of average shareholders' equity employed in the period;

iii) **Book value per share** – book value is defined as shareholders' equity and is the same as the net asset value of the Company (calculated as total assets minus total liabilities) less non-controlling interests in subsidiaries. Book value per share is the book value divided by the number of common shares outstanding as of a particular date;

iv) **Average funds employed** – funds employed is another name that the Company uses for its finance receivables and loans (also referred to as "Loans" in this MD&A), an IFRS measure. Average funds employed are the average finance receivables and loans calculated over a particular period; and

v) **Financial condition and leverage ratios** – the table on page 13 presents the following percentages: (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank indebtedness, loan payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages, provide information on trends in the Company's financial condition and leverage.

ACCORD'S BUSINESS

Accord is one of North America's leading independent finance companies serving clients throughout the United States and Canada. Accord's flexible finance programs cover the full spectrum of asset-based lending ("ABL"), from receivables and inventory finance, to equipment and trade finance, to film and media finance. Accord's business also includes credit protection and receivables management, as well as supply chain financing for importers. The Company's financial services are discussed in more detail in its 2019 Annual Report. Its clients operate in a wide variety of industries, as are set out in note 21(a) to the Statements.

The Company, founded in 1978, operates six finance companies in North America, namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Accord Small Business Finance ("ASBF") in Canada, and Accord Financial, Inc. ("AFIU"), BondIt Media Capital ("BondIt") and Accord CapX LLC ("CapX") (doing business as CapX Partners) in the United States.

The Company's business principally involves: (i) asset-based lending by AFIC and AFIU, which entails financing or purchasing receivables on a recourse basis, as well as financing other tangible assets, such as inventory and equipment; (ii) equipment financing (leasing and equipment loans) by CapX and ASBF. ASBF also provides working capital financing to small businesses; (iii) film and media production financing by BondIt; and (iv) credit protection and receivables management services by AFL, which principally involves providing credit guarantees and collection services, generally without financing.

QUARTERLY FINANCIAL INFORMATION

(unaudited, in thousands except earnings per share)

Quarter ended		Revenue	Net earnings (loss) attributable to shareholders	Earnings (loss) per common share*
2020	**June 30**	**$ 11,270**	**$ 4,343**	**$ 0.51**
	March 31	**12,015**	**(5,876)**	**(0.69)**
2019	December 31	$ 14,297	$ (658)	$ (0.08)
	September 30	15,299	3,237	0.38
	June 30	13,991	2,222	0.26
	March 31	12,588	1,643	0.19
Fiscal 2019		$ 56,175	$ 6,444	$ 0.76**
2018	December 31	$ 12,951	$ 4,161	$ 0.50
	September 30	13,120	2,616	0.31
	June 30	10,823	2,363	0.28
	March 31	10,033	1,216	0.15
Fiscal 2018		$ 46,927	$ 10,356	$ 1.24

** basic and diluted*

*** due to rounding the total of the four quarters does not agree with the total for the fiscal year*

RESULTS OF OPERATIONS

Quarter ended June 30, 2020 compared with quarter ended June 30, 2019

Shareholders' net earnings for the quarter ended June 30, 2020 increased by 95% or $2,121,000 to a quarterly record $4,343,000 compared to the $2,222,000 earned in the second quarter of 2019 and were $1,980,000 higher than the $2,363,000 earned in second quarter of 2018. Shareholders' net earnings increased compared to 2019 mainly as a result of a recovery of loan losses, a one-time income tax recovery and lower interest expense, while shareholders' net earnings rose compared to 2018 as a result of a recovery of loan losses, a one-time income recovery and higher revenue. Basic and diluted earnings per common share ("EPS") was a quarterly record 51 cents compared to 26 cents in the second quarter of 2019 and 28 cents in the second quarter of 2018.

Adjusted net earnings increased by $2,333,000 or 97% to a quarterly record $4,730,000 in 2020 compared to $2,397,000 in the second quarter of 2019 and were $2,056,000 higher than the $2,674,000 earned in the second quarter of 2018. Adjusted EPS (basic and diluted) was a quarterly record 55 cents compared to 28 cents in the second quarter of 2019 and 32 cents in the second quarter of 2018. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarter ended June 30 (in thousands)	2020	2019	2018
Shareholders' net earnings	**$ 4,343**	$ 2,222	$ 2,363
Adjustments, net of tax:			
Restructuring expenses	**331**	—	—
Business acquisition expenses	**56**	133	198
Stock-based compensation expense	**—**	42	113
Adjusted net earnings	**$ 4,730**	$ 2,397	$ 2,674

Revenue declined by 19% or $2,721,000 to $11,270,000 in the second quarter of 2020 compared to $13,991,000 last year but was $447,000 or 4% higher than the $10,823,000 in the second quarter of 2018. Interest income declined by $1,942,000 or 16% to $10,406,000 compared to $12,348,000 in the second quarter of 2019 on a 12% decline in average funds employed and a 4% decrease in average loan yields. Yields declined compared to 2019 in part as a result of lower Canadian and U.S. prime rates of interest, which impact interest income from our floating rate loans to clients, and a number of non-earning accounts. Other income declined by $778,000 to $865,000 in the current quarter compared to $1,643,000 in 2019 as management fees earned by CapX from managing a legacy equipment finance fund ceased at the end of February 2020 and receivables management fees declined. Interest income in the current quarter increased by $1,642,000 or 19% compared to the second quarter of 2018 on a 34% rise in average funds employed, which was partly offset by an 11% decrease in average loan yields. Other income in the current quarter was $1,195,000 lower compared to the second quarter of 2018 for reasons noted above. Average funds employed in the second quarter of 2020 decreased by 12% to $341 million compared to $388 million in 2019 but were 34% higher than the $255 million in 2018.

Total expenses for the second quarter of 2020 decreased by $3,631,000 to $7,448,000 compared to $11,079,000 last year. The provision for credit and loan losses, interest expense and business acquisition expenses decreased by $3,220,000, $698,000 and $96,000, respectively. General and administrative expenses ("G&A") and depreciation increased by $382,000 and $1,000, respectively.

Interest expense declined by 16% to $3,575,000 in the second quarter of 2020 from $4,273,000 last year on an 11% decline in average borrowings and reduced interest rates. Interest rates declined on lower prime rates of interest in Canada and the U.S.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A increased by 6% to $6,569,000 in large part on higher personnel costs, which rose by $209,000 in the second quarter, and the stronger U.S. dollar this year. Personnel costs included restructuring or severance costs of $446,000 in the quarter, while they were net of $487,000 received under the Canadian Emergency Wage Subsidy ("CEWS") program. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses decreased by $3,220,000 to a recovery of $2,955,000 in the second quarter of 2020 compared to an expense of $265,000 last year. The provision comprised:

Quarter ended June 30 (in thousands)	2020	2019
Net write-offs recovery	**$ (1,979)**	$ (32)
Reserves (recovery) expense related to change in total allowances for losses	**(976)**	297
	$ (2,955)	$ 265

There was a net write-offs recovery of $1,979,000 in the current quarter compared to $32,000 last year, while the non-cash reserves expense declined by $1,273,000 to a recovery of $926,000. The net write-offs recovery resulted from the recovery of $3,523,000 from one account which was written-off last December. Excluding this, the Company incurred $1,544,000 in respect of other net write-offs in the second quarter in large part due to the adverse economic impact of COVID-19 on the Company's Loans and managed receivables. The non-cash reserves recovery mainly resulted from a decrease in the Company's total portfolio of loans and managed receivables which declined from $406 million at March 31, 2020 to $337 million at June 30, 2020.

The Company's allowances for losses and portfolios are discussed in detail below and in the Statements. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies or one-off losses, or severe adverse economic conditions which require that higher allowances for losses be established as has been the case since March, 2020 due to the adverse economic impacts of COVID-19.

Depreciation expense increased slightly to $183,000 in the second quarter of 2020. Depreciation of $112,000 (2019 – $110,000) was charged on the Company's right-of-use assets in the current quarter.

Business acquisition expenses consist of transaction and integration costs and the amortization of intangibles relating to ASBF and CapX. For the quarter ended June 30, 2020, these expenses declined to $76,000 (2019 – $171,000). There were no transaction and integration costs in the second quarter of 2020 (2019 – $97,000), while the amortization of intangible assets totalled $76,000 (2019 – $74,000).

Income tax expense decreased by $1,628,000 to a recovery of $905,000 (2019 – $723,000) in part due to a one-time tax recovery of $881,000 relating to a refund in respect of tax losses carried back by the Company's U.S. subsidiary pursuant to temporary COVID-19 tax relief changes, as well as benefitting from a tax structure that the Company implemented towards the end of 2019.

Canadian operations reported shareholders' net earnings of $107,000 in the second quarter of 2020 compared to a shareholders' net loss of $259,000 last year (see note 20 to the statements). Shareholders' net earnings improved mainly as a result of lower interest expense and G&A. Revenue declined by $1,725,000 to $4,682,000. Expenses decreased by $1,871,000 to $4,800,000. Interest expense declined by $1,115,000 to $2,688,000, while G&A declined by $576,000 in large part due to the receipt of the CEWS of $487,000. The provision for credit and loan losses decreased by $178,000 to a recovery of $104,000, while depreciation and business acquisition expenses both declined by $1,000. Income tax decreased by $220,000 to a recovery of $225,000.

U.S. operations reported a $1,755,000 increase in shareholders' net earnings in the second quarter of 2020 compared to 2019 (see note 20 to the Statements). Shareholders' net earnings rose to $4,236,000 compared to $2,481,000 last year. Revenue decreased by $1,176,000 to $6,680,000 on lower funds employed. Expenses declined by $1,940,000 to $2,740,000. The provision for credit and loan losses decreased by $3,042,000 to a recovery of $2,851,000, while business acquisition expenses declined by $96,000 to $35,000. G&A increased by $958,000 to $4,475,000, interest expense rose by $237,000 to $979,000, while depreciation increased by $3,000 to $102,000.

Income tax decreased by $1,408,000 to a recovery of $680,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $384,000 compared to a net loss of $33,000 in the second quarter of 2019.

Six months ended June 30, 2020 compared with six months ended June 30, 2019

Shareholders' net loss for the first half of 2020 totalled $1,534,000 compared to shareholders' net earnings of $3,865,000 in the first half of 2019 and the $3,580,000 earned in first half of 2018. The shareholders' net loss compared to shareholders' net earnings in 2019 and 2018 mainly resulted from a higher provision for credit and loan losses and lower revenue resulting from the severe deterioration in economic activity and its impact on the Company's portfolios as a consequence of COVID-19 prevention measures. An impairment of assets held for sale and increased general and administrative expenses also contributed to the deterioration in financial results. Basic and diluted LPS was 18 cents compared to EPS of 46 cents in the first half of 2019 and 43 cents in the first half of 2018.

Adjusted net loss was $684,000 in the first half of 2020 compared to adjusted net earnings of $4,213,000 in the first half of 2019 and $4,115,000 earned in the first half of 2018. Adjusted LPS was 8 cents compared to adjusted EPS of 50 cents earned in the first half of 2019 and 2018. The following table provides a reconciliation of shareholders' net (loss) earnings to adjusted net (loss) earnings:

Six months ended June 30 (in thousands)	**2020**	2019	2018
Shareholders' net (loss) earnings	**$(1,534)**	$ 3,865	$ 3,580
Adjustments, net of tax:			
Restructuring expenses	**739**	—	—
Business acquisition expenses	**111**	264	401
Stock-based compensation expense	**—**	84	134
Adjusted net (loss) earnings	**$ (684)**	$ 4,213	$ 4,115

Revenue for the first half of 2020 declined by 12% or $3,294,000 to $23,285,000 compared to $26,579,000 last year. Interest income declined by $2,316,000 or 10% to $21,041,000 in first half of 2020 compared to $23,357,000 in 2019 on a 4% decrease in average funds employed and a 6% decline in average loan yields. Yields declined in part on lower Canadian and U.S. prime rates of interest this year compared to 2019 and a number of non-earning accounts. Other income declined by $978,000 to $2,244,000 in the first half of 2020 compared to $3,222,000 in 2019 as management fees earned by CapX from managing a legacy equipment finance fund ceased at the end of February 2020 and receivables management fees declined. Average funds employed in the first half of 2020 decreased to $352 million compared to $367 million in 2019.

Total expenses for the first half of 2020 increased by $6,642,000 or 31% to $28,374,000 compared to $21,732,000 last year. The provision for credit and loan losses, G&A, impairment of assets held for sale and depreciation increased by $5,575,000, $1,094,000, $897,000 and $2,000, respectively. Interest and business acquisition expenses (transaction costs and amortization of intangibles) declined by $731,000 and $195,000, respectively.

Interest expense declined by 9% to $7,580,000 compared to $8,311,000 in the first half of 2019 on decreased interest rates and 4% lower average borrowings. Interest rates declined on reduced prime rates of interest in Canada and the U.S.

G&A increased by 9% or $1,094,000 to $13,516,000 in the current six months compared to $12,422,000 last year. G&A increased on higher personnel costs, which rose by $665,000, and the stronger U.S. dollar this year. Personnel cost rose mainly as a result of restructuring or severance costs totalling $996,000. This was partially offset by receipt of the CEWS totalling $487,000. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by $5,575,000 to $5,867,000 in the first half of 2020 compared to $292,000 last year. The provision comprised:

Six months ended June 30 (in thousands)	2020	2019
Net write-offs	$ 2,122	$ 14
Reserves expense related to increase in total allowances for losses	3,745	278
	$ 5,867	$ 292

The provision for credit and loan losses as a percentage of revenue rose to 25.2% in the first half of 2020 from 1.1% in 2019. Net write-offs increased by $2,108,000 to $2,122,000 in the first six months of 2020 compared to $14,000 last year. Net write-offs are net of the above noted $3,523,000 recovery on one account. Excluding this, the Company incurred $5,645,000 in respect of other net write-offs in the first half of 2020 in large part due to the adverse economic impact of COVID-19 on the Company's portfolio of Loans and managed receivables.

The non-cash reserves expense increased by $3,467,000 to $3,745,000 from $278,000 last year. The increase in the non-cash reserve expense mainly resulted from the deterioration in the economic environment in both Canada and U.S. and its expected impact on our clients as a result of COVID-19, as the Company incorporated forward-looking indicators of expected adverse economic conditions into its expected credit loss models.

An impairment charge of $897,000 (2019 – nil) was taken against certain assets held for sale in the first half of 2020 to write them down to their estimated net recoverable value, which was based on subsequent auction realizations for the assets. Realizations were likely adversely impacted by the severe economic conditions resulting from COVID-19. See note 5 to the Statements.

Depreciation expense increased by $2,000 to $363,000 in the first half of 2020. Depreciation of $222,000 (2019 – $220,000) was charged on the right-of-use assets in the first half of 2020.

Business acquisition expenses totalled $150,000 in the first half of 2020 (2019 – $345,000). There were no transaction and integration costs in the first half of 2020 (2019 – $193,000), while the amortization of intangible assets relating to ASBF and CapX totalled $150,000 (2019 – $152,000).

Income tax declined by $4,949,000 to a recovery of $3,761,000 in the first half of 2020 compared to an expense of $1,188,000 last year. Income tax declined on the pre-tax loss of $5.1 million, the above noted tax recovery and the benefits from the newly implemented tax structure.

Canadian operations reported a shareholders' net loss of $4,631,000 in the first six months of 2020 compared to a shareholders' net loss of $806,000 in 2019. Revenue decreased by $2,047,000 to $10,129,000. Expenses increased by $3,318,000 to $16,423,000. The provision for credit and loan losses rose by $5,406,000 to $5,423,000. Interest expense, G&A, business acquisition expenses, impairment of assets held for sale, business acquisition expenses and depreciation declined by $1,415,000, $667,000 $4,000 and $2,000, respectively. Income tax decreased by $1,540,000 to a recovery of $1,663,000 on a $5,365,000 decrease in pre-tax earnings.

U.S. operations reported a $1,574,000 decrease in shareholders' net earnings in the first half of 2020 compared to 2019. Shareholders' net earnings declined to $3,097,000 compared to $4,671,000 last year. Revenue declined by $1,411,000 to $13,366,000 mainly on lower funds employed. Expenses rose by $3,161,000 to $12,161,000. G&A increased by $1,762,000 to $8,807,000, impairment of assets held for sale increased by $897,000, interest expense rose by $520,000 to $1,744,000, the provision for credit and loan losses increased by $169,000 to $444,000, while depreciation was $5,000 higher. Business acquisition expenses declined by $192,000 to $69,000. Income tax decreased by $3,409,000 to a recovery of $2,098,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $206,000 compared to a net loss of $205,000 in the first half of 2019.

REVIEW OF FINANCIAL POSITION

Shareholders' equity at June 30, 2020 totalled $90,790,000, 2% below the $92,515,000 at December 31, 2019 and slightly higher than the $90,408,000 at June 30, 2019. The decrease in shareholders' equity since December 31, 2019 mainly resulted from a decrease in retained earnings which was partly offset by a rise in accumulated other comprehensive income. Book value per common share was $10.61 at June 30, 2020 compared to $10.77 at December 31, 2019 and $10.70 at June 30, 2019. Please see the consolidated statements of changes in equity on page 22 of this Second Quarter Report.

Total assets declined by 12% to $356,156,000 at June 30, 2020 compared to $406,214,000 at December 31, 2019 and $405,484,000 at June 30, 2019. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 60% of total assets at June 30, 2020 compared to 63% at December 31, 2019 and June 30, 2019 (see note 20 to the Statements).

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, declined by 15% to $316,937,000 at June 30, 2020 compared to $373,157,000 at December 31, 2019 and were 17% lower than the $381,868,000 at June 30, 2019. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	**June 30, 2020**	Dec. 31, 2019	June 30, 2019
Receivable loans	**$ 64,972**	$ 103,842	$ 134,983
Other loans*	**139,599**	167,978	169,326
Lease receivables	**112,366**	101,337	77,559
Finance receivables and loans	**316,937**	373,157	381,868
Less allowance for losses	**6,656**	4,520	3,669
Finance receivables and loans	**$ 310,281**	$ 368,637	$ 378,199

** other loans primarily comprise inventory and equipment loans*

The Company's receivable loans decreased by 37% to $64,972,000 at June 30, 2020 compared to $103,842,000 at December 31, 2019 and were 52% below the $134,983,000 at June 30, 2019. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, declined by 17% to $139,599,000 at June 30, 2020 compared to $167,978,000 at December 31, 2019 and were 18% below the $169,326,000 at June 30, 2019. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose by 11% to $112,366,000 at June 30, 2020 compared to $101,337,000 at December 31, 2019 and were 45% higher than the $77,559,000 at June 30, 2019. Net of the allowance for losses thereon, Loans decreased by 16% to $310,281,000 at June 30, 2020 compared to $368,637,000 at December 31, 2019 and were 18% below the $378,199,000 at June 30, 2019. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 70 clients in a wide variety of industries, as well as ASBF's and CapX's lease receivables and equipment and related loans to approximately 130 clients. The largest client comprised 5% of gross Loans.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled $20 million at June 30, 2020 compared to $27 million at December 31, 2019 and $25 million at June 30, 2019. Managed receivables comprise the receivables of approximately 65 clients at June 30, 2020. The 25 largest clients comprised 88% of total volume in the first half of 2020. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At June 30, 2020, the 25 largest customers accounted for 54% of total managed receivables, of which the largest five comprised 42%. The Company reviews and monitors the retail industry and the credit risk related to its managed receivables very closely.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, decreased by 16% to $337 million at June 30, 2020 compared to $400 million at December 31, 2019 and was 17% below the $407 million at June 30, 2019.

As described in note 21(a) to the Statements, the Company's business principally involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's six operating businesses is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel and management. In the case of credit in excess of $1.0 million (US$1.0 million in the case of AFIU and CapX, and US$500,000 for BondIt), credit is approved by the Company's Executive Credit Committee. Credit in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) is approved by the Credit Committee of the Board of Directors, which comprises three members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are usually term loans with payments spread out evenly over the term of the lease or loan, which can be up to 60 months, although ASBF has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at any time. Of the total managed receivables that the Company guarantees payment, 24.1% were past due more than 60 days at June 30, 2020. In the Company's asset-based lending business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, typically 75 to 90 days from invoice date, and are usually charged back to clients, thereby limiting the Company's credit risk on such older receivables.

The Company employs internal client rating systems to assess the credit risk in its asset-based lending and leasing businesses, which review, amongst other things, the financial strength of each client and the Company's underlying collateral security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk) and also by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of good quality and any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables and applying concentration limits, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases or lends against. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's Canadian leasing operations, security deposits are obtained in respect of equipment leases or loans.

As detailed in note 4, the Company had past due finance receivables and loans of $7,749,000 at June 30, 2020, of which $6,156,000 related to BondIt, the Company's media finance subsidiary, while the balance of $1,593,000 related to ASBF. Repayment of BondIt's loans are often delayed for non-credit related reasons such as production delays.

BondIt's operations have not been particularly impacted by COVID-19. Of the ASBF loans past due, $298,000 are considered to be a SICR. A number of ASBF accounts have been granted temporary COVID-19 related payment relief and are not considered to be a SICR. The balance of the remaining accounts are past due less than 30 days, which is a usual occurrence at ASBF.

At June 30, 2020, the Company had impaired finance receivables and loans of $6,104,000. The impaired loans, which have been written down to net realizable value (fair value less costs of realization) where necessary, are mainly collateralized by receivables, inventory and equipment, the estimated net realizable value of which was $6,376,000 at June 30, 2020. As the vast majority of the Company's finance receivables and loans are collateralized, past due or impaired accounts do not necessarily lead to a significant expected credit loss ("ECL") allowance depending on the net realizable value of the collateral security, which often results in a low or no loss given default ("LGD") in respect of these accounts.

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million (US$2.5 million for U.S. group companies) is approved by the Credit Committee of the Board on a case-by-case basis. Note 21(a) to the Statements provides details of the Company's credit exposure by industrial sector.

The Company's allowance for losses on Loans, calculated under the ECL criteria of IFRS 9, totalled $6,656,000 at June 30, 2020 compared to $4,520,000 at December 31, 2019 and $3,669,000 at June 30, 2019. The significant increase in the allowance for loan losses resulted from the incorporation of expected severe adverse economic conditions on the Company's clients as a result of COVID-19 prevention measures into the forward-looking indicators used in the Company's expected credit loss models. This involved significant use of reasonable and supportable judgment in the face of heightened economic uncertainty and represents management's best estimate of its allowance for loan losses based on information available at that date. Depending on how long the economic impacts of COVID-19 last and the timing and nature of any economic recovery, the measurement of the allowance could fluctuate substantially in future periods. See also discussion on loan modifications in note 4. The modifications principally related to temporary over advances or payment deferrals to accounts totalling $67.8 million that were in good standing at June 30, 2020. The allowance for losses on the guarantee of managed receivables totalled $1,726,000 at June 30, 2020 compared to $44,000 at December 31, 2019 and $43,000 at June 30, 2019. This significant increase in the allowance for losses on the guarantee of managed receivables at June 30, 2020 also resulted from the expected severe adverse economic impact of COVID-19 on the managed receivables, which are primarily due from retailers. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first six months of 2020 and 2019 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Assets held for sale totalled $2,175,000 at June 30, 2020 compared to $6,970,000 at December 31, 2019 and comprised certain assets securing defaulted equipment leases or loans that the Company repossessed or obtained title to. There were no assets held for sale at June 30, 2019. The decrease compared to December 31, 2019 resulted from asset disposals totalling $5,565,000 and an impairment charge of $897,000, discussed above, taken against the assets disposed of as the net proceeds realized therefrom was below their carrying value by such an amount. Assets totalling $1,195,000 were added to assets held for sale during the first half of 2020. There were also foreign exchange gains totalling $471,000 on U.S. dollar denominated assets held for sale due to the stronger U.S. dollar in 2020. Assets held for sale at June 30, 2020 are currently being actively marketed for sale and will be disposed as market conditions permit. For further information see note 5 to the Statements.

Cash increased to $14,735,000 at June 30, 2020 compared to $6,766,000 at December 31, 2019 and $3,554,000 at June 30, 2019. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. The increase in cash at June 30, 2020 was a temporary timing issue and excess cash was used to fund new loans and repay bank indebtedness in the first week of July 2020. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled $3,646,000 at June 30, 2020 compared to $3,639,000 at December 31, 2019 and $3,815,000 at June 30, 2019. Intangible assets totalling US$2,885,000 were acquired upon the acquisition of CapX on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the ASBF acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Please refer to note 8 to the Statements.

Goodwill totalled $13,977,000 at June 30, 2020 compared to $13,455,000 at December 31, 2019 and $13,548,000 at June 30, 2019. Goodwill of US$2,409,000 and US$5,538,000 was acquired on the acquisition of BondIt and CapX on July 1, 2017 and October 27, 2017, respectively. BondIt and CapX goodwill is carried in the Company's U.S. operations, together with US$962,000 from a much earlier acquisition. Goodwill of $1,883,000 was also acquired as part of the ASBF acquisition and is carried in the Company's Canadian operations. The goodwill in the Company's U.S. operations is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 7 to the Statements for information regarding the Company's goodwill impairment reviews. As a result of the adverse economic impact of COVID-19 the Company conducted an impairment test at the end of the first quarter of 2020 and determined that the Company's goodwill was not impaired.

Other assets, income taxes receivable, net deferred tax assets, and property and equipment at June 30, 2020 and 2019 were not material.

Total liabilities decreased by $48,666,000 to $261,180,000 at June 30, 2019 compared to $309,846,000 at December 31, 2019 and were $49,120,000 lower than the $310,300,000 at June 30, 2019. The decrease mainly resulted from lower bank indebtedness.

Amounts due to clients decreased by $552,000 to $1,852,000 at June 30, 2020 compared to $2,404,000 at December 31, 2019 but were $454,000 higher the $1,398,000 at June 30, 2019. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness decreased by $57,383,000 to $185,398,000 at June 30, 2020 compared to $242,781,000 at December 31, 2019 and was $65,298,000 lower than the $250,696,000 at June 30, 2019. Bank indebtedness decreased on lower funds employed. In July 2019, the Company's banking syndicate approved a $75 million increase in its bank credit facility taking the Company's credit limit to $367 million. The Company was in compliance with all of its banking covenants at June 30, 2020 and 2019. Bank indebtedness principally fluctuates with the quantum of funds employed.

Loan payable increased by $2,880,000 to $14,107,000 at June 30, 2020 compared to $11,227,000 at December 31, 2019 and was $6,861,000 higher than the $7,246,000 at June 30, 2019. A revolving line of credit totalling $13,576,000 (US$10,000,000) was established during the second quarter of 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line was increased to $17,648,800 (US$13,000,000) on March 31, 2020. This line of credit was established to finance BondIt's business and is collateralized by all of its assets. The line was renewed in December 2019 and expires on October 19, 2021. BondIt was in compliance with all the loan covenants at June 30, 2020. At June 30, 2019, BondIt had failed a specific covenant which the lender subsequently had waived. See note 10 to the Statements.

Accounts payable and other liabilities increased by $6,099,000 to $12,270,000 at June 30, 2020 compared to $6,170,000 at December 31, 2019 and were $3,509,000 higher than the $8,761,000 at June 30, 2019. The increase since December 31, 2019 mainly resulted from a $3,562,000 increase in security deposits held as collateral for loans and a $1,682,000 increase in the allowance for losses on the guarantee of managed receivables, a component of other liabilities, as discussed above.

Notes payable decreased by $1,795,000 to $17,144,000 at June 30, 2020 compared to $18,939,000 at December 31, 2019 and were $2,265,000 below the $19,409,000 at June 30, 2019. The decrease in notes payable resulted from redemptions thereof. Please see Related Party Transactions section below and note 11(a) to the Statements.

Convertible debentures with a face value of $18,400,000 million were issued by the Company in December 2018. These debentures are listed for trading on the Toronto Stock Exchange ("TSX"). On January 18, 2019, the underwriters of the convertible debenture issue exercised their overallotment option and a further 1,090 debentures were issued with a face value of $1,090,000. On July 23, 2019, the Company issued a further 1,160 convertible debentures with a face value of $1,160,000 by way of private placement, bringing the total face value of the TSX listed debentures issued to $20,650,000, being the maximum that could be issued under their trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value and overall gross proceeds of these TSX listed debentures was $20,626,800. On September 13, 2019, under a supplemental trust indenture, 5,000 unlisted convertible debentures were issued with similar terms to the TSX listed debentures, bringing the total face value of debentures issued to $25,650,000. All unsecured convertible debentures carry a coupon rate of 7.0% with interest payable semi-annually on June 30 and December 31 each year. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares at a conversion price of $13.50 per common share. Net of transaction costs and the above noted discount, a total of $23,781,000 was raised. Please see note 12 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At June 30, 2020, the debt component totalled $23,211,000 (December 31, 2019 – $22,928,000, June 30, 2019 – $17,134,000), while the equity component totalled $1,005,000 (December 31, 2019 – $1,005,000, June 30, 2019 – $803,000), net of deferred taxes.

Outstanding lease liabilities on four of the Company's office leases capitalized as right-of-use assets under IFRS 16 totalled $1,446,000 at June 30, 2020 (December 31, 2019 – $1,598,000, June 30, 2019 – $1,800,000). See note 13 to the Statements.

Income taxes payable, deferred income and deferred tax liabilities at June 30, 2020 and 2019 and December 31, 2019 were not material.

Capital stock totalled $9,448,000 at June 30, 2020 compared to $9,481,000 at December 31, 2019 and $8,275,000 at June 30, 2019. There were 8,558,913 common shares outstanding at June 30, 2020 (December 31, 2019 – 8,588,913, June 30, 2019 – 8,445,783). Please see note 14 to the Statements and the consolidated statements of changes in equity on page 22 of this report for details of changes in capital stock during the first half of 2020 and 2019. During the six months ended June 30, 2020, the Company repurchased and cancelled 30,000 common shares acquired under its issuer bid at a cost of $264,000, for an average price of $8.80 per common share, which is below the Company's book value per common share of $10.61 at June 30, 2020. There was no issuer bid during the quarter and six months ended June 30, 2019. See note 14(c) to the Statements. At the date of this MD&A, July 29, 2020, 8,558,913 common shares remained outstanding.

Contributed surplus totalled $1,202,000 at June 30, 2020 compared to $1,323,000 at December 31, 2019 and $1,121,000 at June 30, 2019. The reduction of $121,000 in contributed surplus in 2020 resulted from the purchase of 2% of the common units in CapX from a non-controlling interest therein bringing the Company's interest in CapX up to 92%. As noted above, included in contributed surplus at June 30, 2020 and 2019 and December 31, 2019 is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax, at June 30, 2020. Please refer to note 12 to the Statements. Please see the consolidated statements of changes in equity on page 22 of this report for details of changes in contributed surplus during the first half of 2020 and 2019.

Retained earnings decreased by $2,964,000 to $72,030,000 at June 30, 2020 compared to $74,994,000 at December 31, 2019 and were $1,875,000 below the $73,905,000 at June 30, 2019. The decrease in 2020 comprised the shareholders' net loss of $1,534,000, dividends paid of $1,199,000 (14 cents per common share) and the $231,000 premium paid on the shares repurchased under the Company's issuer bid. Please see the consolidated statements of changes in equity on page 22 of this report for details of changes in retained earnings during the first half of 2020 and 2019.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance totalled $8,109,000 at June 30, 2020 compared to $6,716,000 at December 31, 2019 and $7,108,000 at June 30, 2019. Please refer to note 17 to the Statements and the consolidated statements of changes in equity on page 22 of this report, which details movements in the AOCI account during the first half of 2020 and 2019. The $1,393,000 increase in AOCI balance in the first half of 2020 resulted from a rise in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar rose from $1.2990 at December 31, 2019 to $1.3576 at June 30, 2020. This increased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries by $1,393,000.

Non-controlling interests in subsidiaries totalled $4,186,000 at June 30, 2020 compared with $3,853,000 at December 31, 2019 and $4,775,000 at June 30, 2019. Please see note 18 to the Statements for details thereof.

LIQUIDITY AND CAPITAL RESOURCES

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company's objectives when managing its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure allows the Company to finance its growth using internally generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to total equity and its total equity and tangible equity to total assets. The ratios are set out in the table below:

(as a percentage)	**June 30, 2020**	Dec. 31, 2019	June 30, 2019
Total equity / Assets	**27%**	24%	23%
Tangible equity / Assets	**22%**	20%	19%
Debt* / Total equity	**253%**	307%	309%

* *bank indebtedness, loan payable, notes payable and convertible debentures*

The Company's financing and capital requirements generally increase with the level of Loans outstanding. The collection period and resulting turnover of outstanding receivables and loans also impact financing needs. In addition to cash flow generated from operations, the Company maintains lines of credit in Canada and the United States. The Company can also raise funds through its notes payable program or raise other forms of debt, such as convertible debentures, or equity.

The Company had credit lines totalling approximately $385 million at June 30, 2020 and had borrowed $200 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt or equity decrease the usage of, and dependence on, these lines. Note 21(b) details the Company's financial assets and liabilities at June 30, 2020 by maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $14,735,000 at June 30, 2020 compared to $6,776,000 at December 31, 2019. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

Management believes that current cash balances and existing credit lines, together with cash flow from operations, will be sufficient to meet the cash requirements of working capital, capital expenditures, operating expenditures, issuer bid purchases, interest and dividend payments and will provide sufficient liquidity and capital resources for future growth over the next twelve months.

Cash flow for the six months ended June 30, 2020 compared with the six months ended June 30, 2019

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $325,000 in the first half of 2020 compared to $5,646,000 last year. After changes in operating assets and liabilities and income tax payments are taken into account, there

CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT JUNE 30, 2020

	Payments due in				
(in thousands)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	**Total**
Debt obligations	$ 204,441	$ 35,419	$ —	$ —	**$ 239,860**
Operating lease obligations	508	811	184	161	**1,664**
Purchase obligations	128	—	—	—	**128**
	$ 205,077	$ 36,230	$ 184	$ 161	**$ 241,652**

was a net cash inflow from operating activities of $75,998,000 in the first six months of 2020 compared to an outflow of $49,569,000 last year. The net cash inflow in the current six months largely resulted from repayment of gross loans of $65,599,000 and proceeds on disposal of assets held for sale of $5,565,000. In the first half of 2019, the net cash outflow largely resulted from financing gross loans of $51,529,000. Changes in other operating assets and liabilities are discussed above and are set out in the Company's consolidated statements of cash flows on page 23 of this report.

Cash outflows from investing activities totalled $23,000 (2019 – $122,000) in the first half of 2020 and comprised capital assets additions.

Net cash outflow from financing activities totalled $66,220,000 in the first six months of 2020 compared to an inflow of $36,949,000 last year. The net cash outflow in the current six months resulted from a decrease in bank indebtedness of $64,945,000, notes payable redeemed, net, totalling $1,968,000, dividends paid of $1,200,000, the repurchase of shares under the normal course issuer bid totalling $264,000, the purchase of an additional 2% interest in CapX from an non-controlling interest for $181,000 and payment of lease liabilities of $189,000. Partially offsetting these outflows was an increase in loan payable totalling $2,527,000. In the first half of 2019, the net cash inflow resulted from an increase in bank indebtedness of $34,291,000, increase in loan payable of $1,810,000, notes payable issued, net, of $1,483,000, issue of convertible debentures of $1,090,000 and capital stock of $160,000 which was partly offset by dividend payments totalling $1,519,000, lease liabilities payments of $185,000 and a distribution paid to non-controlling interests of $181,000.

The effect of exchange rate changes on cash comprised a loss of $1,797,000 in the first half of 2020 compared to a loss of $49,000 in the first half of 2019.

Overall, there was a net cash inflow of $7,958,000 in the first six months compared to a net cash outflow of $12,792,000 in first half of 2019.

RELATED PARTY TRANSACTIONS

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. Notes payable comprise short-term notes (due within one year) and long-term notes due on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand ($2,357,000) which bear interest at rates that vary with bank prime rate or Libor; and (ii) numerous BondIt notes ($2,579,000) which are repayable on various dates, the latest of which is January 31, 2021, and bear interest at rates of between 7% and 12%. The long-term notes, which total $12,208,000 and mature on July 31, 2021, were entered into for a three-year term commencing August 1, 2018. They pay a fixed interest rate of 7%.

Notes payable totalled $17,144,000 at June 30, 2020 compared to $18,939,000 at December 31, 2019 and $19,409,000 at March 31, 2019. Of these notes payable, $14,707,000 (December 31, 2019 – $15,476,000, June 30, 2019 – $16,646,000) was owing to related parties and $2,437,000 (December 31, 2019 – $3,463,000, June 30, 2019 – $2,763,000) to third parties. Interest expense on these notes in the current quarter and first half of 2020 totalled $301,000 (2019 – $329,000) and $621,000 (2019 – $632,000), respectively. Please refer to note 11(a) to the Statements.

The following parties had notes payable with the Company:

Short-term notes payable		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C$ 1,000,000
Hitzig Bros., Hargreaves & Co. LLC*	Directors	US$ 700,000
Ken Hitzig	Director	C$ 450,000

Term notes payable (due July 31, 2021)		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C$ 3,500,000
Oakwest Corporation Inc.*	Director	C$ 3,000,000
Ken Hitzig	Director	C$ 1,000,000

* *a director(s) of the Company has an ownership interest in this Company*

Accord pays a rate of interest related to Canadian prime (currently it pays 1.95% or 2.45%) on its Canadian dollar unsecured demand notes payable, while its U.S. dollar unsecured demand notes pay a LIBOR based rate of interest (currently 2.25%). These rates of interest are below the rates that Accord pays on its main banking facility with The Bank of Nova Scotia ("BNS") resulting in interest savings to the Company.

Upon renewal of the BNS facility, the Company entered into three-year unsecured notes payable maturing July 31, 2021. These notes are solely with related parties. The renewed credit facility allows these 3-year notes to be treated as "quasi equity" and be included in the Company's tangible net worth (TNW) for the purposes of leveraging its bank line (up to 3.5 x TNW). This created additional borrowing capacity that Accord can utilize at lower credit facility rates of interest, which was the main business purpose thereof.

FINANCIAL INSTRUMENTS

All financial assets and liabilities, with the exception of cash, lease liability, derivative financial instruments, the guarantee of managed receivables and the Company's LTIP liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, other than the lease receivables and loans to clients in our equipment finance business and lease liabilities, are short term in nature and, therefore, their carrying values approximate fair values. At June 30, 2020 and 2019, there were no outstanding foreign exchange contracts entered into by the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting estimates represent those estimates that are highly uncertain and for which changes in those estimates could materially impact the Company's financial results. The following are accounting estimates that the Company considers critical to the financial results of its business segments:

i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios, typical industry loss experience, macro-economic factors and forward-looking information. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency, or may result from severe adverse economic conditions as we are seeing as a result of COVID-19.

The Company's allowance for losses on its loans and its guarantee of managed receivables are provided for under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against accounts which have not experienced a significant increase in credit risk ("SICR") and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve-month period after the reporting date. Stage 1 accounts are considered to be in good standing. In establishing its Stage 1 allowances, the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis. The Company's Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Lifetime ECL are recognized for all Stage 3 financial instruments. In Stage 3, financial instruments are written-off, either partially or in full, against the related allowance for losses when the Company judges that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net recoverable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses. Management believes that its allowances for losses, which require a high degree of reasonable and supportable judgment, are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d), 4 and 21(a) to the Statements.

ii) the extent of any provisions required for outstanding claims. In the normal course of business there is outstanding litigation, the results of which are not normally expected to have a material effect upon the Company. However, the adverse resolution of a particular claim could have a material impact on the Company's financial results. Management is not aware of any claims currently outstanding the aggregate liability from which would materially affect the financial position of the Company.

CONTROL ENVIRONMENT

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal Control over Financial Reporting ("ICFR") is a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As at June 30, 2020, management evaluated and concluded on the effective design of the Company's DC&P and ICFR and determined that there were no material changes to the Company's ICFR during the three months then ended that materially affected, or were reasonably likely to materially affect, the Company's ICFR.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate and, as such, there can be no assurance that any design will succeed in achieving its stated goal under all potential conditions.

RISKS AND UNCERTAINTIES THAT COULD AFFECT FUTURE RESULTS

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 21 to the Statements, which discusses the Company's principal financial risk management practices.

Deterioration in economic and business conditions due to COVID-19

The results of the Company may be negatively impacted by various economic factors and business conditions including the level of economic activity in Canada and U.S.A. To the extent that economic activity or business conditions deteriorate, new business may decrease, and loan and credit losses may increase. As the Company's operating subsidiaries extend credit primarily to small businesses, many of our clients or their customers may be particularly susceptible to economic slowdowns and may be unable to make scheduled lease or loan payments during these periods. Deterioration in the economic environment may limit access to credit facilities, and other capital markets or result in a decision by lenders not to extend further credit.

Competition from alternative sources of financing

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects this level of competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current or future competitors. If the Company's competitors engage in aggressive pricing policies with respect to services that compete with those of the Company's, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, some of the Company's competitors may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share.

Further, because there are fewer barriers to entry to the markets in which the Company operates, new competitors could enter these markets at any time. Because of all these competitive factors, the Company may be unable to sustain its operations at its current levels or generate growth in revenues or operating income, either of which could have a material adverse impact on the Company's business, financial condition and results of operations.

Credit risk, inability to underwrite finance receivables and loan applications

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financings, designed to serve small- and medium-sized businesses, which are often owner-operated and have limited access to traditional financing. There is a high degree of risk associated with providing financing to such parties as a result of their lower creditworthiness. Even with an appropriately diversified lending business, operating results can be adversely affected by large bankruptcies and/or insolvencies. Losses from client loans in excess of the Company's expectations could have a material adverse impact on the Company's business, financial condition and results of operations. In addition, since defaulted loans as well as certain delinquent loans cannot be used as collateral under the Company's credit facilities, higher than anticipated defaults and delinquencies could adversely affect the Company's liquidity by reducing the amount of funding available to the Company under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could cause the Company to be in breach of its financial covenants under its credit facilities, and could also result in adverse changes to the terms of future financing arrangements available to the Company, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Interest rate risk

The Company has fixed rate borrowings, as well as floating rate borrowings. The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes. However, as the Company's floating rate funds employed are similar to its floating rate borrowings at June 30, 2020, the Company currently has minimal exposure to interest rate fluctuations. Fluctuations in interest rates may have a material adverse impact on the Company's business, financial condition and results of operations.

Foreign currency risk

The Company has international operations, primarily in the United States. Accordingly, a significant portion of its financial resources are held in currencies other than the Canadian dollar. In recent years, the Company has seen the fluctuations in the U.S. dollar against the Canadian dollar affect its operating results when its foreign subsidiaries results are translated into Canadian dollars. It has also affected the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the accumulated other comprehensive income component of equity to a loss position, although it is now in a large gain position. No assurances can be made that changes in foreign currency rates will not have a significant adverse effect on the Company's business, financial condition or results of operations.

External financing

The Company depends and will continue to depend on the availability of credit from external financing sources, to continue to, among other things, finance new and refinance existing loans and satisfy the Company's other working capital needs. The Company believes that current cash balances and existing credit lines, together with cash flow from operations, will be sufficient to meet its cash requirements with respect to investments in working capital, operating expenditures and dividend payments, and also provide sufficient liquidity and capital resources for future growth over the next twelve months. However, there is no guarantee that the Company will continue to have financing available to it or if the Company were to require additional financing that it would be able to obtain it on acceptable terms or at all. If any or all of the Company's funding sources become unavailable on terms acceptable to the Company or at all, or if any of the Company's credit facilities are not renewed or re-negotiated upon expiration of their terms, the Company may not have access to the financing necessary to conduct its businesses, which would limit the Company's ability to finance its operations and could have a material adverse impact on it's business, financial condition and results of operations. Please also see comments regarding business conditions due to COVID-19 on page 16.

Deterioration in economic or business conditions; impact of significant events and circumstances

The Company operates mainly in Canada and the United States. The Company's operating results may be negatively affected by various economic factors and business conditions, including the level of economic activity in the markets in which it operates. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase. As the Company extends credit primarily to small- and medium-sized businesses, many of its customers are particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavorable economic conditions may also make it more difficult for the Company to maintain new origination volumes and the credit quality of new loans at levels previously attained. Unfavorable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities and other capital markets funding sources or result in a decision by the Company's lenders not to extend further credit. Any of these events could have a material adverse impact on the Company's business, financial condition and results of operations. Please also see comments regarding business conditions due to COVID-19 on page 16.

Dependence on key personnel

Employees are a significant asset of the Company, and the Company depends to a large extent upon the abilities and continued efforts of its key operating personnel and senior management team. If any of these persons becomes unavailable to continue in such capacity, or if the Company is unable to attract and retain other qualified employees, it could have a material adverse impact on the Company's businesses, financial condition and results of operations. Market forces and competitive pressures may also adversely affect the ability of the Company to recruit and retain key qualified personnel.

Income tax matters

The income of the Company must be computed in accordance with Canadian, U.S. and foreign tax laws, as applicable, and the Company is subject to Canadian, U.S. and foreign tax laws, all of which may be changed in a manner that could adversely affect the Company's business, financial condition or results of operation.

Recent and future acquisitions and investments

In recent years, the Company has acquired or invested in businesses and may seek to acquire or invest in additional businesses in the future that expand or complement its current business. Recent acquisitions by the Company have increased the size of the Company's operations and the amount of indebtedness that may have to be serviced by the Company and future acquisitions by the Company, if they occur, may result in further increases in the Company's operations or indebtedness. The successful integration and management of any recently acquired businesses or businesses acquired in the future involves numerous risks that could adversely affect the Company's business, financial condition, or results of operations, including: (i) the risk that management may not be able to successfully manage the acquired businesses and that the integration of such businesses may place significant demands on management, diverting their attention from the Company's existing operations; (ii) the risk that the Company's existing operational, financial, management, due diligence or underwriting systems and procedures may be incompatible with the markets in which the acquired business operates or inadequate to effectively integrate and manage the acquired business; (iii) the risk that acquisitions may require substantial financial resources that otherwise could be used to develop other aspects of the Company's business; (iv) the risk that as a result of acquiring a business, the Company may become subject to additional liabilities or contingencies (known and unknown); (v) the risk that the personnel of any acquired business may not work effectively with the Company's existing personnel; (vi) the risk that the Company fails to effectively deal with competitive pressures or barriers to entry applicable to the acquired business or the markets in which it operates or introduce new products into such markets; and (vii) the risk that the acquisition may not be accretive to the Company. The Company may fail to successfully integrate such acquired businesses or realize the anticipated benefits of such acquisitions, and such failure could have a material adverse impact on the Company's business, financial condition and results of operations.

Fraud by lessees, borrowers, vendors or brokers

The Company may be a victim of fraud by lessees, borrowers, vendors and brokers. In cases of fraud, it is difficult and often unlikely that the Company will be able to collect amounts owing under a lease/loan or repossess any related collateral. Increased rates of fraud could have a material adverse impact on the Company's business, financial condition and results of operations.

Risk of future legal proceedings

The Company is threatened from time to time with, or is named as a defendant in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting its businesses. A significant judgment or the imposition of a significant fine or penalty on the Company could have a material adverse impact on the Company's business, financial condition and results of operation. Significant obligations may also be imposed on the Company by reason of a settlement or judgment involving the Company, as well as risks pertinent to financing facilities, including acceleration and/or loss of funding availability. Publicity regarding involvement in matters of this type, especially if there is an adverse settlement or finding in the litigation, could result in adverse consequences to the Company's reputation that could, among other things, impair its ability to retain existing or attract further business. The continuing expansion of class action litigation in U.S. and Canadian court actions has the effect of increasing the scale of potential judgments. Defending such a class action or other major litigation could be costly, divert management's attention and resources and have a material adverse impact on the Company's business, financial condition and results of operations.

OUTLOOK

The Company has had significant growth in funds employed in recent years, a key indicator of where the Company is heading, and entered 2020 firing on all cylinders, focused on its strategic plan aimed at bringing our distinct operating units onto a unified, streamlined platform. From there we looked forward to accelerating Accord's growth trajectory. Then, as the world knows, the United States and Canada chose to suspend economic activity in the battle to tame COVID-19. Recently, we've seen the United States and Canadian economies open up somewhat, although COVID-19 continues to be a significant threat to economies and health worldwide. We've been through many economic cycles, but very few that descended to the extent we have seen in terms of unemployment and economic decline.

The adverse economic conditions resulting from COVID-19 prevention measures in North America severely impacted the Company's funds employed and revenue, which have declined, as well as led to a significantly increased provision for losses, all of which have resulted in a first half loss. We did see a significant profit in the second quarter, however, this was in large part as a result of a recovery of a loan loss we provided for last December and an income tax recovery. With this much economic uncertainty stemming from COVID-19, it is difficult to predict the future. All our operating companies were on an upward trajectory in terms of growth in funds employed, with the exception of our credit protection and receivables management business, which is facing intense competition from multinational credit insurers. Once COVID-19 passes, it is expected the Company will see strong growth in funds employed again from its equipment finance businesses, CapX and ASBF, as well as at its media finance business, BondIt, with more moderate growth coming from the Company's asset-based financing units, AFIC and AFIU. The receivables management business, AFL, is not expected to grow, however, its contribution is no longer financially significant to the Accord group overall.

To support this growth, the Company's increased its bank facility limit to $367 million in 2019, which should provide it with the majority of funding needed to support further growth in the next twelve months. Today, in the wake of COVID-19, our banking partners continue to be very supportive.

With its substantial capital and borrowing capacity, Accord is well positioned to capitalize on market conditions when they start to improve. The Company knows from experience that economic uncertainty creates tremendous growth opportunities in commercial finance, as certain competitors weaken and the major banks become even more risk-averse. Accord has the deepest and most experienced management team that it has ever had, which will enable it to meet increased competition and develop new opportunities in a very competitive and challenging environment.

Stuart Adair

Stuart Adair
Senior Vice President, Chief Financial Officer
July 29, 2020

Consolidated Statements of Financial Position (unaudited)

	June 30, 2020	December 31, 2019	June 30, 2019
Assets			
Cash	$ 14,734,921	$ 6,776,422	$ 3,553,757
Finance receivables and loans, net (note 4)	310,280,925	368,637,083	378,199,312
Income taxes receivable	4,152,413	996,039	780,590
Other assets	3,592,253	2,426,949	1,535,860
Assets held for sale (note 5)	2,174,953	6,970,369	—
Deferred tax assets, net	1,548,382	975,714	1,392,820
Property and equipment (note 6)	2,048,888	2,337,365	2,657,880
Intangible assets (note 8)	3,645,900	3,639,468	3,814,877
Goodwill (note 7)	13,976,975	13,454,926	13,548,467
	$ 356,155,610	$ 406,214,335	$ 405,483,563
Liabilities			
Due to clients	$ 1,852,383	$ 2,403,717	$ 1,397,806
Bank indebtedness (note 9)	185,397,740	242,781,300	250,696,390
Loan payable (note 10)	14,106,902	11,226,897	7,245,867
Accounts payable and other liabilities	12,270,311	6,170,491	8,760,951
Income taxes payable	1,015,201	337,764	1,497,966
Notes payable (note 11(a))	17,143,777	18,938,887	19,408,926
Convertible debentures (note 12)	23,211,453	22,927,941	17,133,713
Lease liabilities (note 13)	1,446,126	1,597,664	1,800,141
Deferred income	930,868	1,210,471	1,466,927
Deferred tax liabilities, net	3,805,027	2,251,060	891,400
	261,179,788	309,846,192	310,300,087
Equity			
Capital stock (note 14)	$ 9,448,264	$ 9,481,382	$ 8,275,074
Contributed surplus (note 14(d))	1,201,785	1,322,575	1,120,549
Retained earnings	72,030,153	74,994,381	73,904,531
Accumulated other comprehensive income (note 17)	8,109,461	6,716,581	7,107,870
Shareholders' equity	90,789,663	92,514,919	90,408,024
Non-controlling interests in subsidiaries (note 18)	4,186,159	3,853,224	4,775,452
Total equity	94,975,822	96,368,143	95,183,476
	$ 356,155,610	$ 406,214,335	$ 405,483,563

Notice to Reader - Management has prepared these condensed interim unaudited consolidated financial statements and notes and is responsible for the integrity and fairness of the financial information presented therein. They have been reviewed and approved by the Company's Audit Committee and Board of Directors. Pursuant to National Instrument 51-102, Part 4, Subsection 4.3(3)(a), the Company advises that its independent auditor has not performed a review or audit of these condensed interim unaudited consolidated financial statements.

Consolidated Statements of Earnings (unaudited)

Three and six months ended June 30	Three months 2020	Three months 2019	Six months 2020	Six months 2019
Revenue				
Interest (note 4)	**$ 10,405,587**	$ 12,347,454	**$ 21,041,541**	$ 23,357,140
Other income (note 4)	**864,666**	1,643,279	**2,243,759**	3,222,086
	11,270,253	13,990,733	**23,285,300**	26,579,226
Operating expenses				
Interest	**3,574,945**	4,273,268	**7,580,016**	8,311,392
General and administrative	**6,569,098**	6,186,900	**13,516,595**	12,422,411
(Recovery of) provision for credit and loan losses (note 4)	**(2,955,077)**	265,273	**5,867,247**	292,172
Impairment of assets held for sale	**—**	—	**897,277**	—
Depreciation	**183,738**	182,211	**362,502**	359,925
Business acquisition expenses:				
Transaction costs	**—**	96,968	**—**	193,426
Amortization of intangible assets	**75,647**	74,415	**150,232**	152,160
	7,448,351	11,079,035	**28,373,869**	21,731,486
Earnings (loss) before income tax	**3,821,902**	2,911,698	**(5,088,569)**	4,847,740
Income tax (recovery) expense	**(905,000)**	723,000	**(3,761,000)**	1,188,000
Net earnings (loss)	**4,726,902**	2,188,698	**(1,327,569)**	3,659,740
Net earnings (loss) attributable to non-controlling interests in subsidiaries	**384,211**	(33,282)	**206,202**	(204,928)
Net earnings (loss) attributable to shareholders	**$ 4,342,691**	$ 2,221,980	**$ (1,533,771)**	$ 3,864,668
Basic and diluted earnings (loss) per common share (note 15)	**$ 0.51**	$ 0.26	**$ (0.18)**	$ 0.46

Consolidated Statements of Comprehensive Income (unaudited)

Three and six months ended June 30	Three months 2020	Three months 2019	Six months 2020	Six months 2019
Net earnings (loss)	**$ 4,342,691**	$ 2,221,980	**$ (1,533,771)**	$ 3,864,668
Other comprehensive (loss) income:				
Items that are or may be reclassified to profit or loss:				
Unrealized foreign exchange (loss) income on translation of self-sustaining foreign operations (note 17)	**(1,020,878)**	(973,859)	**1,392,880**	(1,963,791)
Comprehensive income (loss)	**$ 3,321,813**	$ 1,248,121	**$ (140,891)**	$ 1,900,877

Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock (note 14)						
	Number of common shares outstanding	Amount	Contributed surplus (note 14(d))	Retained earnings	Accumulated other comprehensive income (note 17)	Non-controlling interests in subsidiaries (note 18)	Total equity
Balance at January 1, 2019	8,428,542	$ 8,114,733	$ 1,072,753	$ 71,558,552	$ 9,071,661	$ 5,367,272	$ 95,184,971
Comprehensive income	—	—	—	3,864,668	(1,963,791)	—	1,900,877
Common shares issued under long-term incentive plan	17,241	160,341	—	—	—	—	160,341
Equity component of convertible debentures issued, net of tax	—	—	47,796	—	—	—	47,796
Net loss attributable to non-controlling interests in subsidiaries	—	—	—	—	—	(204,928)	(204,928)
Dividends paid	—	—	—	(1,518,689)	—	—	(1,518,689)
Distribution to non-controlling interest	—	—	—	—	—	(181,213)	(181,213)
Translation adjustments on non-controlling interests	—	—	—	—	—	(205,679)	(205,679)
Balance at June 30, 2019	8,445,783	$ 8,275,074	$ 1,120,549	$ 73,904,531	$ 7,107,870	$ 4,775,452	$ 95,183,476

Balance at January 1, 2020	**8,588,913**	**$ 9,481,382**	**$ 1,322,575**	**$ 74,994,381**	**$ 6,716,581**	**$ 3,853,224**	**$ 96,368,143**
Comprehensive income (loss)	**—**	**—**	**—**	**(1,533,771)**	**1,392,880**	**—**	**(140,891)**
Dividends paid	**—**	**—**	**—**	**(1,199,526)**	**—**	**—**	**(1,199,526)**
Shares repurchased for cancellation	**(30,000)**	**(33,118)**	**—**	**(230,931)**	**—**	**—**	**(264,049)**
Purchase of additional 2% of Accord CapX LLC from non-controlling interest	**—**	**—**	**(120,790)**	**—**	**—**	**—**	**(120,790)**
Net earnings attributable to non-controlling interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**206,202**	**206,202**
Translation adjustments on non-controlling interests	**—**	**—**	**—**	**—**	**—**	**126,733**	**126,733**
Balance at June 30, 2020	**8,558,913**	**$ 9,448,264**	**$ 1,201,785**	**$ 72,030,153**	**$ 8,109,461**	**$ 4,186,159**	**$ 94,975,822**

Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30	2020	2019
Cash provided by (used in)		
Operating activities		
Net (loss) earnings	$ (1,327,569)	$ 3,659,740
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	3,744,866	277,603
Deferred income	(24,783)	(105,256)
Amortization of intangible assets	150,232	152,160
Depreciation of property and equipment	362,502	359,925
Impairment of assets held for sale	897,277	—
Gain on disposal of assets held for sale	—	(39,793)
Accretion of convertible debentures	283,512	154,099
Deferred tax expense	972,893	188,095
Current income tax (recovery) expense	(4,733,893)	999,905
	325,037	5,646,478
Changes in operating assets and liabilities		
Finance receivables and loans, gross	65,598,717	(51,528,663)
Due to clients	(601,824)	(1,732,999)
Other assets	(1,110,908)	(438,234)
Accounts payable and other liabilities	3,980,250	(1,499,288)
Proceeds on disposal of assets held for sale	5,564,798	86,675
Income tax refund (paid), net	2,241,846	(103,349)
	75,997,916	(49,569,380)
Investing activities		
Additions to capital assets, net	(22,699)	(122,488)
Financing activities		
Bank indebtedness	(64,945,083)	34,290,382
Loan payable	2,527,142	1,810,257
Notes payable (redeemed) issued, net	(1,968,313)	1,482,988
Issuance of shares	—	160,341
Dividends paid	(1,199,526)	(1,518,689)
Repurchase and cancellation of shares	(264,049)	—
Purchase of 2% of Accord CapX LLC from a non-controlling interest	(181,389)	—
Convertible debentures issued	—	1,090,000
Distribution paid to non-controlling interests in subsidiaries	—	(181,213)
Lease liabilities	(188,787)	(185,446)
	(66,220,005)	36,948,620
Effect of exchange rate changes on cash	(1,796,713)	(48,843)
Increase (decrease) in cash	7,958,499	(12,792,091)
Cash at January 1	6,776,422	16,345,848
Cash at June 30	$ 14,734,921	$ 3,553,757
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 5,945,213	$ 7,284,373

Notes to Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2020 and 2019

1. Description of the business

Accord Financial Corp. (the “Company”) is incorporated by way of Articles of Continuance under the Ontario Business Corporations Act and, through its subsidiaries, is engaged in providing asset-based financing, including factoring, equipment and inventory financing, leasing, credit investigation, credit protection and receivables management, to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 40 Eglinton Avenue East, Suite 602, Toronto, Ontario, Canada.

2. Basis of presentation and statement of compliance

These condensed interim unaudited consolidated financial statements ("Statements") are expressed in Canadian dollars, the Company’s functional and presentation currency, and are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board ("IASB"). These Statements do not include all of the information and footnotes required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). They have been prepared using the accounting policies that the Company expects to utilize in its consolidated financial statements for the year ending December 31, 2020, the more significant of which are detailed in note 3. These accounting policies are based on IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report for the fiscal year ended December 31, 2019.

The preparation of the condensed interim unaudited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates that are particularly judgmental relate to the determination of the allowance for losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(d) and 4), the determination of the value of intangible assets and goodwill on acquisition (notes 8 and 7), as well as the net realizable value of deferred tax assets and liabilities.

In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as COVID-19. The rapid evolution of this pandemic combined with the restrictions on the movement of people and goods has led to a significant contraction in economic activity. While some of these restrictions are being lifted in stages, significant economic uncertainties persist the expected impact of which require increased judgment for many of the Company's estimates and assumptions and carry a higher degree of measurement uncertainty, variability and volatility. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in the future. Examples of significant estimates include the allowances for losses, the determination of triggering events for impairment for non-financial assets, such as goodwill and intangible assets, and fair value measurements, including those related to financial instruments. Management believes that its estimates are reasonable, supportable and appropriate.

The condensed interim unaudited consolidated financial statements of the Company have been prepared on an historical cost basis except for the following items which are recorded at fair value:

- Cash
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Senior executive long-term incentive plan ("LTIP")*
- Guarantee of managed receivables*

** a component of accounts payable and other liabilities*

These condensed interim unaudited consolidated financial statements for the three and six months ended June 30, 2020 were approved for issue by the Company's Board of Directors ("Board") on July 29, 2020.

3. Significant accounting policies

(a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries; namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Varion Capital Corp. (doing business as Accord Small Business Finance ("ASBF")) in Canada and Accord Financial, Inc. ("AFIU") in the United States. The Company exercises 100% control over each of its subsidiaries. The accounting policies of the Company's subsidiaries are aligned with IFRS. Intercompany balances and transactions are eliminated upon consolidation.

(b) Revenue recognition

Revenue principally comprises interest, including discount fees, factoring commissions and other fees from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. Interest charged on finance receivables and loans is recognized as revenue using the effective interest rate method. For receivables purchased in its recourse factoring business, discount fees are calculated as a discount percentage of the gross amount of the factored invoice and are recognized as revenue over the initial discount period. Additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. For managed receivables, factoring commissions are charged upfront and a certain portion is deferred and recognized over the period that costs are incurred collecting the receivables. In the Company's leasing business, interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate which exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of ASBF and Accord CapX LLC ("CapX"), a subsidiary of AFIU, are considered an integral part of the yield earned on the debtor balance and are accounted for using the effective interest rate method. Other revenue, such as management fees, due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

(c) Finance receivables and loans

The Company finances its clients principally by providing asset-based loans, including factoring receivables and financing equipment leases. Finance receivables and loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Finance receivables and loans are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method. The Company's financial assets are measured at amortized cost as the following conditions are met:

i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

The Company's leasing operations have standard lease contracts that are non-cancellable direct financing leases and provide for monthly lease payments, usually for periods of one to five years. The present value of the minimum lease payments and residual values expected to be received under the lease terms is recorded at the commencement of the lease. The difference between this total value, net of execution costs, and the cost of the leased asset is unearned revenue, which is recorded as a reduction in the asset value, with the net amount being shown as the net investment in leases (specifically, the Company's lease receivables). The unearned revenue is then recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return on the net investment throughout the lease term.

(d) Allowance for losses

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, under which allowances for expected credit losses ("ECL") are recognized on all financial assets that are classified either at amortized cost or fair value through other comprehensive income ("FVOCI") and for all loan commitments and financial guarantees that are not measured at fair value through profit and loss ("FVTPL"). ECL allowances represent credit losses that reflect an unbiased and probability weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances, which involves significant judgment.

The Company's ECL allowances are measured at amounts equal to either: (i) 12-month ECL (also referred to as Stage 1 ECL) which comprises an allowance for all non-impaired financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition. Stage 1 ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the twelve-month period after the reporting date; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises allowances for those financial instruments which have experienced a SICR since initial recognition. Significant judgment is required in the application of SICR. The Company generally considers an account to have a SICR when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its "watchlist." The Company recognizes lifetime ECL for Stage 2 financial instruments compared to twelve months of ECL for Stage 1 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then the Company will revert back to recognizing twelve months of ECL as the financial instrument has migrated back to Stage 1.

The calculation of ECL is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Company expects to receive. The key inputs in the measurement of ECL allowances are as follows: (i) the probability of default (PD) which is an estimate of the likelihood of default over a given time horizon; (ii) the loss given default (LGD) which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) the exposure at default (EAD) which is an estimate of the exposure at a future default date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Stage 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. No allowance for ECL is usually provided by the Company for Stage 3 accounts, rather the financial instrument is written down to its estimated net realizable value, or in respect of the Company's managed receivables, an amount is accrued for the expected payment to clients under its guarantee. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Accounts are in "workout" as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses.

(e) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash generating unit ("CGU"). Goodwill is also tested for impairment between annual assessments when facts and other circumstances indicate that impairment may have occurred. If the carrying value of the goodwill exceeds its recoverable amount, the excess is charged against earnings in the year in which the impairment is determined.

(f) Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be reliably determined. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets, with the exception of the acquired brand name which is considered to have an indefinite life and is not amortized, have a finite life and are amortized over their useful economic life. Intangible assets are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and are treated as a change in accounting estimates. The amortization expense is recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer relationships, broker relationships and brand name in its leasing operations. With the exception of the brand name, these are amortized over a period of five to fifteen years.

(g) Foreign subsidiaries

The Company's foreign subsidiaries report in U.S. dollars and their assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at the period-end. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting translation gains and losses are credited or charged to other comprehensive income or loss and presented in the accumulated other comprehensive income or loss component of equity.

(h) Stock-based compensation

The Company accounts for stock options issued to directors and/or employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the stock options on the grant date. The fair value of the stock options is recorded in general and administrative expenses over the awards vesting period.

The Company's LTIP (note 14(g)) contemplates that grants thereunder may be settled in common shares and/or cash. Grants are determined as a percentage of the participants' short-term annual bonus, up to an annual LTIP pool maximum, and are then adjusted up or down based on the Company's adjusted return on average equity over the three-year vesting period of an award. The fair value of the LTIP awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

(i) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, and the guarantee of managed receivables which are all recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date. The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be reliably estimated.

(j) Convertible debentures

Convertible debentures include both a debt and equity component due to the embedded financial derivative associated with the conversion option. The debt component of the debenture is initially recognized at fair value determined by discounting the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debt instruments. The equity component of the convertible debenture is initially determined as the difference between the gross proceeds of the debenture issue and the debt component, net of any deferred tax liability that arises from the temporary difference between the carrying value of the debt and its tax basis. The equity component is included in contributed surplus within total equity. Directly attributable transaction costs related to the issuance of convertible debentures are allocated to the debt and equity components on a pro-rata basis, reducing their fair value at the time of initial recognition.

(k) Assets held for sale

Assets acquired or repossessed on realizing security on defaulted finance receivables and loans are held for sale and are stated at the lower of cost or recoverable amount (also referred to as “net realizable value”).

4. Finance receivables and loans and managed receivables

As set out in note 2, it is noted that there is a high degree of uncertainty relating to the severe adverse economic impact of COVID-19 on the Company’s portfolio of finance receivables and loans, and managed receivables, and the requirement to build forward-looking information or conditions into our expected credit loss models under IFRS 9. This has resulted in significant increases in the Company’s provision for credit and loan losses and allowances for losses, as well as downgrades in internal client credit risk ratings and an increased proportion of loans classified as a SICR and/or impaired as detailed in notes 4(a) and 4(b) below. Certain payment modifications have also been granted as a result of COVID-19 as a means of avoiding credit and loan losses.

(a) Finance receivables and loans

	June 30, 2020	Dec. 31, 2019	June 30, 2019
Receivable loans	**$ 64,972,239**	$103,841,877	$134,983,024
Other loans*	**139,598,896**	167,978,086	169,326,144
Lease receivables	**112,365,790**	101,337,120	77,559,144
Finance receivables and loans, gross	**316,936,925**	373,157,083	381,868,312
Less allowance for losses	**6,656,000**	4,520,000	3,669,000
Finance receivables and loans, net	**$310,280,925**	$368,637,083	$378,199,312

** other loans primarily comprise inventory and equipment loans*

The Company's finance receivables and loans are generally collateralized by a first charge on substantially all of the borrowers' assets, or are leased assets or factored receivables which the Company owns. Collateral securing the Company's finance receivables and loans primarily comprises receivables, inventory and equipment, as well as, from time to time, other assets such as real estate and guarantees.

Lease receivables comprise the net investment in leases by ASBF and CapX as described in note 3(c). Lease receivables at June 30, 2020 are expected to be collected over a period of up to five years.

In certain cases where a borrower has experienced financial difficulty due to the economic impact of COVID-19, the Company has granted certain modifications to the terms and conditions of a lease or loan. Such modifications may include temporary over advances, payment deferrals, minor extensions of amortization periods, and other modifications intended to minimize credit and loan losses where it is expected the lifetime risk of default of a client is not significant. Finance receivables and loans that were modified as a direct result of COVID-19 at June 30, 2020 totalled $68.7 million.

Interest income earned on finance receivables and loans during the quarter ended June 30, 2020 totalled $10,405,587 (2019 – $12,347,454), while interest income earned on finance receivables and loans during the six months ended June 30, 2020 totalled $21,041,541 (2019 – $23,357,140) .

Finance receivables and loans based on the contractual repayment dates thereof can be summarized as follows:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Less than 1 year	**$ 185,531**	$ 201,259	$ 226,763
1 to 2 years	**75,291**	54,357	93,582
2 to 3 years	**38,888**	44,838	39,493
3 to 4 years	**14,477**	57,631	18,235
4 to 5 years	**2,750**	15,071	3,790
Thereafter	**—**	1	5
	$ 316,937	$ 373,157	$ 381,868

The aged analysis of the Company's finance receivables and loans was as follows:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Current	**$ 303,084**	$ 358,592	$ 370,989
Past due but not impaired:			
Past due less than 90 days	**2,222**	1,162	6,214
Past due 90 to 180 days	**1,429**	3,949	992
Past due 180 days or more	**4,098**	2,684	3,652
Impaired loans	**6,104**	6,770	21
	$ 316,937	$ 373,157	$ 381,868

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR, which is based on the lifetime risk of default of an account, or an impairment, which may be rebutted where payments are delayed for non-credit related reasons, such as specific industry related reasons or practices as we often see across certain of the Company's lines of business. Further, a number of accounts are past due as a result of granting certain COVID-19 payment relief, where such accounts do not necessarily represent a SICR.

At June 30, 2020, the estimated net realizable value of the collateral securing the Company's impaired loans totalled $6,376,000.

The Company maintains internal credit risk ratings on its finance receivables and loans by client which it uses for credit risk management purposes. The Company's internal credit risk ratings are defined as follows:

Low risk: finance receivables and loans that exceed the credit risk profile standard of the Company with a below average expected credit loss.

Medium risk: finance receivables and loans that are typical for the Company's risk appetite and credit standards and retain an average expected credit loss.

High risk: finance receivables and loans within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average expected credit loss. Typically, these finance receivables and loans are expected to represent a small percentage of the Company's total finance receivables and loans. However, due to the severe adverse economic impact of COVID-19, high risk loans are higher than normally anticipated at June 30, 2020.

Impaired: finance receivables and loans on which the Company has commenced enforcement proceedings available to it under its contractual agreements and/or where there is objective evidence that there has been a deterioration in credit quality to the extent that the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. As noted earlier, the quantum of impaired loans at June 30, 2020 is higher than normally anticipated mainly due to the severe adverse economic impact of COVID-19.

The following table summarizes the Company's finance receivables and loans by their internal credit risk rating:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Low risk	$ 99,270	$ 139,684	$ 144,637
Medium risk	163,772	180,670	218,289
High risk	47,791	46,033	18,921
Impaired	6,104	6,770	21
	$ 316,937	$ 373,157	$ 381,868

Finance receivables and loans classified under the three stage credit criteria of IFRS 9 were as follows:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Stage 1	$ 289,216	$ 341,093	$ 372,589
Stage 2 (SICR)	21,617	25,294	9,258
Stage 3 (Impaired)	6,104	6,770	21
	$ 316,937	$ 373,157	$ 381,868

Stage 1 finance receivables and loans comprise those accounts in good standing where there has been no SICR since initial recognition. Stage 2 finance receivables and loans comprise those accounts that have experienced a SICR since initial recognition, while Stage 3 finance receivables and loans comprise those accounts which are impaired.

The activity in the allowance for losses on finance receivables and loans account during the first six months of 2020 and 2019 was as follows:

	2020	2019
Allowance for losses at January 1	$ 4,520,000	$ 3,450,000
Provision for loan losses	3,700,920	270,507
Write-offs	(5,175,985)	(127,718)
Recoveries	3,537,931	165,815
Foreign exchange adjustment	73,134	(89,604)
Allowance for losses at June 30	$ 6,656,000	$ 3,669,000

The activity in the allowance for losses on finance receivables and loans during the first six months of 2020 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2020	$ 2,911,016	$ 1,608,984	$ —	$ 4,520,000
Transfer between stages	(549,804)	(612,763)	1,162,567	—
Reserves expense (recovery)* related to change in allowance for losses	2,366,861	858,572	(1,162,567)	2,062,866
Foreign exchange adjustment	57,696	15,438	—	73,134
Allowance for losses at June 30, 2020	$ 4,785,769	$ 1,870,231	$ —	$ 6,656,000

**a component of the provision for loan losses*

The activity in the allowance for losses on finance receivables and loans during the first six months of 2019 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2019	$ 2,669,024	$ 780,976	$ —	$ 3,450,000
Transfer between stages	(33,769)	33,769	—	—
Reserves expense* related to increase in allowance for losses	278,801	29,803	—	308,604
Foreign exchange adjustment	(63,687)	(25,917)	—	(89,604)
Allowance for losses at June 30, 2019	$ 2,850,369	$ 818,631	$ —	$ 3,669,000

**a component of the provision for loan losses*

There was no Stage 3 allowance for losses at June 30, 2020 and 2019 as impaired finance receivables and loans were written down to the present value of their estimated net recoverable amounts and any allowances thereon reversed.

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. These transactions are conducted on terms that are usual and customary to the Company's asset-based lending activities. The Company controls the credit risk associated with its finance receivables and loans, and managed receivables as discussed below, in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 21(a).

At June 30, 2020, the Company held cash collateral of $6,298,635 (2019 – $1,663,816) to help reduce the risk of loss on certain of the Company's finance receivables and loans.

(b) Managed receivables

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At June 30, 2020, the gross amount of these managed receivables was $19,958,130 (December 31, 2019 – $27,338,317, June 30, 2019 – $25,009,697). Fees from the Company's receivables management and credit protection business during the three and six months ended June 30, 2020 totalled $135,464 (2019 – $426,528) and $654,779 (2019 – $1,024,389), respectively. This is included in other income.

The aged analysis of the Company's managed receivables was as follows:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Current	$ 9,094	$ 19,537	$ 18,099
Past due but not impaired:			
Past due less than 90 days	8,646	7,387	6,260
Past due more than 90 days	1,835	414	651
Impaired	383	—	—
	$ 19,958	$ 27,338	$ 25,010

The past due managed receivables do not necessarily represent a SICR or an impairment, which are usually rebutted as the collection period in the retail industry, the industry relating to the vast majority of managed receivables, is often past due. However, the impact of COVID-19 on the Company's managed receivables at June 30, 2020 has been considered in establishing the allowance for losses thereon. See below.

The following table summarizes the Company's managed receivables by their internal credit risk rating:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Low risk	$ 6,972	$ 4,059	$ 3,015
Medium risk	6,010	21,910	19,974
High risk	6,593	1,369	2,021
Impaired	383	—	—
	$ 19,958	$ 27,338	$ 25,010

As noted above, the increase in medium and high risk rated managed receivables directly results from the severe adverse economic impact of COVID-19 and the Company's exposure to the retail industry which has been significantly impacted by COVID-19 prevention measures.

Managed receivables classified under the three stage credit criteria of IFRS 9 were as follows:

(in thousands)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Stage 1	$ 12,982	$ 27,162	$ 24,866
Stage 2 (SICR)	6,593	176	144
Stage 3 (Impaired)	383	—	—
	$ 19,958	$ 27,338	$ 25,010

Stage 1 managed receivables comprise those accounts in good standing where there has been no SICR since initial recognition. Stage 2 managed receivables comprise those accounts that have experienced a SICR since initial recognition. Stage 3 (impaired) managed receivables at the above dates comprise those accounts where a client has a claim for payment under the Company's guarantees and an actual liability has been accrued in respect of the claim and is included in accounts payable and other liabilities.

Management provides an allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at that date. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during the six months ended June 30, 2020 and 2019 was as follows:

	2020	2019
Allowance for losses at January 1	$ 44,000	$ 74,000
Provision for loan losses	2,166,327	21,665
Write-offs	(489,391)	(62,566)
Recoveries	5,064	9,901
Allowance for losses at June 30	$1,726,000	$ 43,000

The substantial increase in allowance for losses on the guarantee of managed receivables is reflective of the increase in Stage 2 (SICR) managed receivables at June 30, 2020.

The activity in the allowance for losses on the guarantee of managed receivables at June 30, 2020 by stage of allowances was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2020	$ 40,480	$ 3,520	$ —	$ 44,000
Transfer between stages	(19,746)	18,665	1,081	—
Reserves expense* related to increase in allowance for losses	39,356	1,643,725	(1,081)	1,682,000
Allowance for losses at June 30, 2020	$ 60,090	$ 1,665,910	$ —	$ 1,726,000

**a component of the provision for loan losses*

The activity in the allowance for losses on the guarantee of managed receivables at June 30, 2019 by stage of allowances was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2019	$ 31,943	$ 42,057	$ —	$ 74,000
Transfer between stages	—	—	—	—
Reserves expense* related to increase in allowance for losses	8,174	(39,174)	—	(31,000)
Allowance for losses at June 30, 2019	$ 40,117	$ 2,883	$ —	$ 43,000

**a component of the provision for loan losses*

There were no transfers between the two stages of the allowance for losses on the guarantee of managed receivables during the first six months of 2019. There is no Stage 3 allowance for impaired managed receivables as an actual liability is accrued in respect of the guarantees given to clients on the impaired accounts which is included in accounts payable and other liabilities.

5. Assets held for sale

Assets held for sale and movements therein during the first six months of 2020 and 2019 were as follows:

	2020	2019
Assets held for sale at January 1	$6,970,369	$ 46,882
Additions	1,195,299	—
Disposals	(5,564,798)	(46,882)
Impairment charge	(897,277)	—
Foreign exchange adjustment	471,360	—
Assets held for sale at June 30	$2,174,953	$ —

During 2019 and 2020, the Company obtained title to or repossessed certain long-lived assets securing defaulted finance receivables and loans from a number of clients. The majority of these assets have now been disposed of by auction, while the remainder will be disposed of as market conditions permit. The estimated net realizable value (being fair value less costs to sell) of the assets at June 30, 2020 and 2019 was based upon appraisals of the assets and totalled $2,214,000 at June 30, 2020. During the six months ended June 30, 2020, assets were disposed of for net proceeds of $5,564,798 and an impairment charge of $897,277 was booked against these assets.

6. Property and equipment

Property and equipment includes the Company's right-of-use assets, comprising four office leases. The Company's right-of-use assets and movements therein during the first six months of 2020 and 2019 were as follows:

(in thousands)	2020	2019
Right-of-use assets at January 1	$ 1,544	$ 2,027
Depreciation expense	(221)	(219)
Foreign exchange adjustment	35	(41)
Right-of-use assets at June 30	$ 1,358	$ 1,767

Property and equipment also includes capital assets, net of accumulated depreciation, totalling $690,394 (2019 – $890,782).

7. Goodwill

	2020	2019
Goodwill at January 1	$ 13,454,926	$ 14,031,320
Foreign exchange adjustment	522,049	(482,853)
Goodwill at June 30	$ 13,976,975	$ 13,548,467

At June 30, 2020 and 2019, goodwill of US$8,908,713 was carried in AFIU, the Company's U.S. subsidiary.

A foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at a different prevailing period-end exchange rate.

Goodwill was allocated to the following cash generating units ("CGUs") at June 30, 2020 and 2019:

	2020	2019
U.S. operations	$ 12,094,468	$ 11,665,960
Canadian operations	1,882,507	1,882,507
Balance at June 30	$ 13,976,975	$ 13,548,467

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2019, the Company conducted annual impairment reviews on each CGU and determined that there was no impairment to the carrying value of goodwill. As a result of the adverse economic impact of COVID-19, the Company also conducted impairment reviews on its CGUs at March 31, 2020 and determined that the Company's goodwill was not impaired.

8. Intangible assets

Intangible assets and movements therein during the first six months of 2020 and 2019 were as follows:

2020	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost:					
January 1, 2020	$ 1,179,097	$ 1,978,377	$ 1,343,938	$ 1,769,238	$ 6,270,650
Foreign exchange adjustment	—	89,248	—	79,813	169,061
June 30, 2020	$ 1,179,097	$ 2,067,625	$ 1,343,938	$ 1,849,051	$ 6,439,711
Accumulated amortization:					
January 1, 2020	$(1,179,097)	$ (283,239)	$(1,168,846)	$ —	$(2,631,182)
Amortization expense	—	(69,414)	(80,818)	—	(150,232)
Foreign exchange adjustment	—	(12,397)	—	—	(12,397)
June 30, 2020	$(1,179,097)	$ (365,050)	$(1,249,664)	$ —	$(2,793,811)
Book value:					
January 1, 2020	$ —	$ 1,695,318	$ 175,092	$ 1,769,238	$ 3,639,468
June 30, 2020	$ —	$ 1,702,575	$ 94,274	$ 1,849,051	$ 3,645,900

2019	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost:					
January 1, 2019	$ 1,179,097	$ 2,076,915	$ 1,343,938	$ 1,857,359	$ 6,457,309
Foreign exchange adjustment	—	(82,546)	—	(73,820)	(156,366)
June 30, 2019	$ 1,179,097	$ 1,994,369	$ 1,343,938	$ 1,783,539	$ 6,300,943
Accumulated amortization:					
January 1, 2019	$ (1,179,097)	$ (158,658)	$ (1,003,668)	$ —	$ (2,341,423)
Amortization expense	—	(67,800)	(84,360)	—	(152,160)
Foreign exchange adjustment	—	7,517	—	—	7,517
June 30, 2019	$ (1,179,097)	$ (218,941)	$ (1,088,028)	$ —	$ (2,486,066)
Book value:					
January 1, 2019	$ —	$ 1,918,257	$ 340,270	$ 1,857,359	$ 4,115,886
June 30, 2019	$ —	$ 1,775,428	$ 255,910	$ 1,783,539	$ 3,814,877

9. Bank Indebtedness

A revolving line of credit of approximately $367 million has been established with a syndicate of six banks, bearing interest varying with the bank prime rate or Libor. The line is collateralized primarily by the Company's finance receivables and loans. At June 30, 2020, the amount outstanding under the line of credit totalled $185,397,740 (December 31, 2019 – $242,781,300, June 30, 2019 – $250,696,390). The Company was in compliance with all loan covenants under its bank line of credit during the first six months of 2020 and 2019.

10. Loan payable

A revolving line of credit totalling US$10,000,000 was established by BondIt Media Capital ("BondIt"), a subsidiary of AFIU, in April 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line was renewed in 2019 for a period expiring in October 2021 and is collateralized by all of BondIt's assets. On March 31, 2020, this line was increased to US$13,000,000 ($17,648,800). At June 30, 2020, the amount outstanding under this line of credit totalled $14,106,902 (December 31, 2019 – $11,226,897, June 30, 2019 – $7,245,867). Under this facility, BondIt was in compliance with all loan covenants at June 30, 2020, while at June 30, 2019, BondIt failed a specific covenant test, which the lender subsequently waived.

11. Related Party Transactions

(a) Notes payable

Notes payable comprise unsecured short-term notes (due in less than one year), as well as long-term notes (due after one year) which were entered into for a three-year term on August 1, 2018 and mature on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand ($2,356,737); and (ii) numerous BondIt notes ($2,579,440) which are repayable on various dates the latest of which is January 31, 2021. Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties.

Notes payable were as follows:

	June 30, 2020	Dec. 31, 2019	June 30, 2019
Short-term notes:			
Related parties	$ 2,499,102	$ 3,326,849	$ 4,486,056
Third parties	2,437,075	3,463,038	2,763,370
	4,936,177	6,789,887	7,249,426
Long-term notes:			
Related parties	12,207,600	12,149,000	12,159,500
	$ 17,143,777	$ 18,938,887	$ 19,408,926

Interest on the notes due on, or within a week of, demand bear interest at rates that vary with bank prime rate or Libor, while the BondIt notes bear interest at rates which range from 7% to 12%. The long-term notes carry a fixed interest rate of 7% with interest payable each calendar quarter-end.

Interest expense on the notes payable for the three and six months ended June 30, 2020 and 2019 was as follows:

	Three months		Six months	
	2020	2019	2020	2019
Related parties	$254,766	$276,911	$513,199	$ 534,444
Third parties	46,454	51,871	107,845	97,244
	$301,220	$328,782	$621,044	$ 631,688

(b) BondIt loan participations

BondIt utilizes loan participations to provide capital for and reduce the risk of loss on certain client loans, as well as reduce its overall cost of capital. A number of related parties have participated in the BondIt client loans. At June 30, 2020, participations in BondIt client loans totalled US$6,135,000 (December 31, 2019 – US$6,101,000, June 30, 2019 – US$6,054,000), of which US$2,017,000 (December 31, 2019 – US$990,000, June 30, 2019 – US$1,837,000) was provided by related parties. These participations are not included in the consolidated statements of financial position.

12. Convertible debentures

In December 2018, the Company issued 18,400 7.0% convertible unsecured debentures with a face value of $1,000 each for proceeds of $18,400,000. On January 17, 2019, the underwriters of the debenture issue exercised their overallotment option and a further 1,090 convertible debentures were issued for proceeds of $1,090,000. On July 23, 2019, the Company issued a further 1,160 convertible debentures with a face value of $1,160,000 by way of private placement, bringing the total face value of the debentures issued to $20,650,000, which is the maximum issuable under the debenture trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value. These debentures are listed on the Toronto Stock Exchange. On September 13, 2019, the Company issued 5,000 7.0% unlisted convertible unsecured debentures with a face value of $1,000 each for proceeds of $5,000,000. Interest on all the convertible debentures is payable semi-annually on June 30 and December 31 each year. The debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares of the Company at a conversion price of $13.50 per common share.

The debentures are not redeemable by the Company prior to December 31, 2021 except in limited circumstances following a change of control. On or after December 31, 2021 and at any time prior to December 31, 2022, the debentures may be redeemed at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon provided that the market price of the Company's common shares is at least 125% of the conversion price. On or after December 31, 2022 and prior to the maturity date, these debentures may be redeemed in whole or in part at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon.

The Company used the residual method to calculate the allocation between the debt and equity components of the debentures. The gross proceeds of $25,626,800 were allocated towards the debt component of these debentures by discounting the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debentures. The equity component is initially determined to be the difference between the gross proceeds and the debt component. Transaction costs were then allocated to the debt and equity components on a pro-rata basis. The equity component is carried net of deferred taxes and is included in contributed surplus.

The allocation of the gross proceeds from the convertible debentures issuances and the balances outstanding on the debt and equity components at June 30, 2020 were as follows:

	Liability component of debentures	**Equity component of debentures**	**Total**
Debentures issued	**$24,152,897**	**$ 1,473,903**	**$25,626,800**
Transaction costs	**(1,739,323)**	**(106,414)**	**(1,845,737)**
Net proceeds	**22,413,574**	**1,367,489**	**23,781,063**
Deferred taxes	**—**	**(362,384)**	**(362,384)**
Accretion in carrying value of debenture liability	**797,879**	**—**	**797,879**
Balance, June 30, 2020	**$23,211,453**	**$ 1,005,105**	**$24,216,558**

The allocation of the gross proceeds from the convertible debentures issuances and the balances outstanding on the debt and equity components at June 30, 2019 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	$18,307,604	$1,182,396	$19,490,000
Transaction costs	(1,388,520)	(89,772)	(1,478,292)
Net proceeds	16,919,084	1,092,624	18,011,708
Deferred taxes	—	(289,545)	(289,545)
Accretion in carrying value of debenture liability	214,629	—	214,629
Balance, June 30, 2019	$17,133,713	$ 803,079	$17,936,792

At June 30, 2020, all debentures remained outstanding.

13. Lease liabilities

The following table presents the contractual undiscounted cash flows for office lease obligations at June 30:

(in thousands)	**2020**	2019
Less than one year	**$ 508**	$ 502
One to five years	**995**	1,383
Thereafter	**161**	252
Total undiscounted lease obligations	**1,664**	2,137
Less: short-term leases elected for exemption under IFRS 16	**(17)**	(43)
Less: future interest	**(201)**	(294)
Lease liabilities at June 30	**$ 1,446**	$ 1,800

For the three months ended June 30, 2020, principal and interest payments for the four leases recognized under IFRS 16 totalled $104,023 and $23,597, respectively, for total lease payments of $127,620. For the six months ended June 30, 2020, principal and interest payments for the four leases recognized under IFRS 16 totalled $188,787 and $63,313, respectively, for total lease payments of $252,100. No variable lease payments are included in the measurement of the Company's lease liabilities.

14. Capital stock, contributed surplus, dividends, stock option plans, senior executive long-term incentive plan, and stock-based compensation

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At June 30, 2020 and 2019, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during the first half of 2020 and 2019 are set out in the consolidated statements of changes in equity.

(c) Share repurchase program

On December 4, 2019, the Company received approval from the TSX to commence a normal course issuer bid (the "2019 Bid") for up to 429,445 of its common shares at prevailing market prices on the TSX or other approved exchanges. The 2019 Bid commenced on December 9, 2019 and will terminate on December 8, 2020 or the date on which a total of 429,445 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2019 Bid will be cancelled. During the six months ended June 30, 2020, the Company had repurchased and cancelled 30,000 common shares acquired under the 2019 Bid at an average price of $8.80 per common share for total consideration of $264,049. This amount was applied to reduce share capital by $33,118 and retained earnings by $230,931. No share were repurchased during the quarter ended June 30, 2020. The Company did not have a normal course issuer bid in process during the six months ended June 2019.

(d) Contributed surplus

The Company's contributed surplus and movements therein during the first half of 2020 and 2019 are set out in the consolidated statements of changes in equity.

(e) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three and six months ended June 30, 2019, dividends totalling $427,946 (2019 – $760,120) and $1,199,526 (2019 – $1,518,689) or $0.05 (2019 – $0.09) and $0.14 (2019 – $0.18), respectively, per common share were declared and paid.

On July 29, 2020, the Company declared a quarterly dividend of $0.05 per common share, payable September 1, 2020 to shareholders of record at the close of business on August 14, 2020.

(f) Stock option plans

The Company has established an employee stock option plan. Under the terms of the plan, an aggregate of 1,000,000 common shares has been reserved for issue upon the exercise of options granted to key managerial employees of the Company and its subsidiaries. According to the terms of the plan, these options vest over a period of three years provided certain minimum earnings criteria are met. Although the Company may still grant stock options to employees, it has not done so since 2004.

The Company has also established a non-executive directors' stock option plan ("NEDSOP"). Under the terms of the plan, an aggregate of 500,000 common shares has been reserved for issue upon the exercise of options granted to non-executive directors of the Company. Fifty percent of these options vest after one year and fifty percent after two years. The options have to be exercised within five years of the grant date at which time they expire.

Options are granted to purchase common shares at prices not less than the market price of such shares on the grant date.

Outstanding options granted under the NEDSOP at June 30, 2020 and 2019 were as follows:

Exercise price	Grant Date	Number of options
$9.56	October 28, 2015	**80,000**
$9.28	July 27, 2016	**80,000**
Outstanding, earned and exercisable		**160,000**

The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions on the grant date:

	July 27, 2016 grant	Oct. 28, 2015 grant
Risk free interest rate	0.65%	0.82%
Expected dividend yield	3.88%	3.77%
Expected share price volatility	23.78%	23.50%
Expected life of option	5.0 years	5.0 years
Fair value per option	$1.35	$1.40

(g) Senior executive long-term incentive plan

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined as a percentage of the participants' short-term annual bonus subject to an annual LTIP pool maximum of 5% of adjusted net earnings. Vesting of the LTIP is subject to achievement over a three-year period of a cumulative adjusted return on average equity and may be adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance of shares and/or paid in cash.

(h) Stock-based compensation

During the three and six months ended June 30, 2020, the Company had no stock-based compensation expense. During the three and six months ended June 30, 2019, the Company recorded a stock-based compensation expense of $57,000 and $114,000, respectively, all of which was in respect of LTIP awards.

15. Earnings per common share and weighted average number of common shares outstanding

Basic earnings per share have been calculated based on the weighted average number of common shares outstanding in the year without the inclusion of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding in the year, which in the Company's case consist of stock options and convertible debentures.

The following is a reconciliation of common shares used in the calculation of earnings per share for the three and six months ended June 30:

Three months	2020	2019
Basic weighted average number of common shares outstanding	**8,558,913**	8,440,036
Effect of dilutive stock options	**—**	9,647
Diluted weighted average number of common shares outstanding	**8,558,913**	8,449,683

Six months	2020	2019
Basic weighted average number of common shares outstanding	**8,565,063**	8,434,289
Effect of dilutive stock options	**—**	6,509
Diluted weighted average number of common shares outstanding	**8,565,063**	8,440,798

All outstanding stock options were excluded from the calculation of the diluted weighted number of shares outstanding for the three and six months ended June 30, 2020 because they were considered to be anti-dilutive for earnings per common share purposes. Details of stock options outstanding are set out in note 14(f). All convertible debentures were similarly excluded from the calculation for the three and six months ended June 30, 2020 and 2019 because they were anti-dilutive for earnings per common share purposes.

16. Contingent liabilities

(a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At June 30, 2020 and 2019, the Company was not aware of any litigation the aggregate liability from which would materially affect the financial position of the Company, and thus had not accrued a loss.

(b) At June 30, 2020, there were no letters of credit issued on behalf of clients for which the Company was contingently liable (December 31, 2019 – $220,830; June 30, 2019 – nil). The Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of $692,376 at June 30, 2020 (December 31, 2019 – $1,026,210; June 30, 2019 – $13,095). These amounts were considered in determining the allowance for losses on finance receivables and loans.

17. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during the six months ended June 30, 2020 and 2019 are set out in the consolidated statements of changes in equity.

18. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at June 30, 2020 comprised an effective 49% (2019 – 49%) interest in BondIt's common member units and an 8% (2019 – 10%) interest in CapX's common units. During the first quarter of 2020, the Company acquired an additional 2% of the common units in CapX from a non-controlling interest at a cost of $181,389 (US$130,000). Please see the consolidated statements of changes in equity for movements in non-controlling interests during the six months ended June 30, 2020 and 2019.

19. Fair values of financial assets and liabilities

Financial assets or liabilities, other than lease receivables and loans to clients in our equipment finance business, lease liabilities, convertible debentures and term notes payable, are short term in nature and, therefore, their carrying values approximate fair values. Changes in interest rates, credit spreads and liquidity costs are the main cause of changes in the fair value of the Company's financial instruments resulting in a favorable or unfavorable variance compared to carrying value. For the Company's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. Under the fair value hierarchy, finance receivables and loans would be classified as level 3.

20. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. An operating segment is a component in the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Companies other subsidiaries, whose operating results are regularly reviewed by the Company's Chief Operating Decision Makers ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment results that are reported to the CODM include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. There were no significant changes to property and equipment and goodwill during the periods under review.

Three months ended June 30	2020				2019			
(in thousands)	Canada	United States	Inter-company	Total	Canada	United States	Inter-company	Total
Identifiable assets	$ 141,467	$ 214,734	$ (45)	$ 356,156	$ 170,675	$ 257,041	$ (22,232)	$ 405,484
Revenue								
Interest income	$ 4,172	$ 6,325	$ (92)	$ 10,405	$ 5,440	$ 7,180	$ (272)	$ 12,348
Other income	510	355	—	865	967	676	—	1,643
	4,682	6,680	(92)	11,270	6,407	7,856	(272)	13,991
Expenses								
Interest	2,688	979	(92)	3,575	3,803	742	(272)	4,273
General and administrative	2,094	4,475	—	6,569	2,670	3,517	—	6,187
Provision for credit and loan losses	(104)	(2,851)	—	(2,955)	74	191	—	265
Depreciation	82	102	—	184	83	99	—	182
Business acquisition expenses	40	35	—	75	41	131	—	172
	4,800	2,740	(92)	7,448	6,671	4,680	(272)	11,079
Earnings (loss) before income tax	(118)	3,940	—	3,822	(264)	3,176	—	2,912
Income tax (recovery) expense	(225)	(680)	—	(905)	(5)	728	—	723
Net earnings (loss)	107	4,620	—	4,727	(259)	2,448	—	2,189
Net earnings (loss) attributable to non-controlling interest in subsidiaries	—	384	—	384	—	(33)	—	(33)
Net earnings (loss) attributable to shareholders	$ 107	$ 4,236	$ —	$ 4,343	$ (259)	$ 2,481	$ —	$ 2,222

Six months ended June 30	2020				2019			
(in thousands)	Canada	United States	Inter-company	Total	Canada	United States	Inter-company	Total
Identifiable assets	$ 141,467	$ 214,734	$ (45)	$ 356,156	$ 170,675	$ 257,041	$ (22,232)	$ 405,484
Revenue								
Interest income	$ 8,693	$ 12,558	$ (210)	$ 21,041	$ 10,228	$ 13,503	$ (374)	$ 23,357
Other income	1,436	808	—	2,244	1,948	1,274	—	3,222
	10,129	13,366	(210)	23,285	12,176	14,777	(374)	26,579
Expenses								
Interest	6,046	1,744	(210)	7,580	7,461	1,224	(374)	8,311
General and administrative	4,710	8,807	—	13,517	5,377	7,045	—	12,422
Provision for credit and loan losses	5,423	444	—	5,867	17	275	—	292
Impairment of assets held for sale	—	897	—	897	—	—	—	—
Depreciation	163	200	—	363	165	195	—	360
Business acquisition expenses	81	69	—	150	85	261	—	346
	16,423	12,161	(210)	28,374	13,105	9,000	(374)	21,731
Earnings (loss) before income tax	(6,294)	1,205	—	(5,089)	(929)	5,777	—	4,848
Income tax (recovery) expense	(1,663)	(2,098)	—	(3,761)	(123)	1,311	—	1,188
Net earnings (loss)	(4,631)	3,303	—	(1,328)	(806)	4,466	—	3,660
Net earnings (loss) attributable to non-controlling interest in subsidiaries	—	206	—	206	—	(205)	—	(205)
Net earnings (loss) attributable to shareholders	$ (4,631)	$ 3,097	$ —	$ (1,534)	$ (806)	$ 4,671	$ —	$ 3,865

21. Financial risk management

The Company is exposed to credit, liquidity and market risks related to the use of financial instruments in its operations. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit Committee. In this respect, the Audit Committee meets with management and the Company's Risk Management Committee at least quarterly. The Company's risk management policies are established to identify, analyze, limit, control and monitor the risks faced by the Company. Risk management policies and systems are reviewed regularly to reflect changes in the risk environment faced by the Company.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. In the Company's case, credit risk arises with respect to its loans to and other financial transactions with clients, its guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with. The carrying amount of these loans ($317 million) and managed receivables ($20 million) represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. The Company will usually either: (i) own the factored receivables or leased assets that it finances; or (ii) take collateral security over the other assets that it lends against. The Company also makes unsecured small business loans; these totalled $766,118 at June 30, 2020.

In its asset-based lending business, the Company makes loans that are, in most cases, secured against various forms of collateral. The collateral is generally first ranking security on the client's assets which typically comprise receivables, inventory, equipment and real estate. The Company provides a loss allowance on all of its finance receivables and loans based on the assessed credit risk. There were no significant changes in the quality of collateral or changes to the Company's collateral policy during the three and six months ended June 30, 2020 and 2019.

The credit risk to the Company has significantly increased in the three and six months ended June 30, 2020 due to the sharp contraction in economic activity in both Canada and U.S.A. as a result of COVID-19. This has resulted in a substantial increase in the provision for credit and loan losses and related allowances for losses for the six months ended June 30, 2020, as well as certain payment modifications granted as a means of avoiding credit and loan losses. As COVID-19 events continue to evolve and additional information becomes available, our estimates of ECL may change materially in future periods as appropriate. This may add significant volatility to the Company's provision for losses and allowances for losses.

At June 30, 2020, the Company had impaired loans of $6,104,000 (December 31, 2019 – $6,770,000, June 30, 2019 – $21,000), while, at that date, it held collateral for these loans with an estimated net realizable value of $6,376,000 (December 31, 2019 – $8,034,000, June 30, 2019 – $262,000). These impaired loans were mainly secured by receivables, inventory and/or equipment. At June 30, 2020, the Company also had impaired managed receivables of $383,000 (2019 – nil). The Company has accrued for these in the accounts payable and other liabilities.

In its asset-based lending and equipment finance businesses and credit protection and receivables management operations (AFL), credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel and management. In the case of credit in excess of $1.0 million (US$1.0 million in case of AFIU and CapX, and US$500,000 for BondIt), credit is approved by the Company's Executive Credit Committee. Credit in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) is approved by the Credit Committee of the Board of Directors, which comprises three members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. In its asset-based lending operations, a primary focus continues to be on the credit-worthiness and collectability of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. The Company's lease receivables and equipment and working capital loans are mainly term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 24.1% were past due more than 60 days at June 30, 2020 (2019 – 5.3%). In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs an internal client credit risk rating system to assess the credit risk in its asset-based lending and equipment finance businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 which presents the Company's finance receivables and loans and managed receivables by their internal credit risk rating (low risk, medium risk, high risk) and by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it finances. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. Regular field examinations are conducted to verify collateral such as inventory and equipment. In the Company's Canadian leasing operations, security deposits are also obtained as additional collateral for its equipment leases or loans.

In the Company's credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Credit Committee of the Board on a case-by-case basis. At June 30, 2020, the Company had guaranteed accounts receivable in excess of $5 million for one customer.

The Company's credit exposure relating to its finance receivables and loans by industrial sector was as follows:

	June 30, 2020		June 30, 2019	
Industrial Sector (in thousands)	**Gross finance receivables and loans**	**% of total**	Gross finance receivables and loans	% of total
Manufacturing	**$ 95,489**	**30**	$ 92,708	24
Professional Services	**55,272**	**18**	54,714	14
Financial services	**37,811**	**12**	71,650	19
Wholesale and distribution	**25,759**	**8**	42,314	11
Media	**22,880**	**7**	20,401	6
Construction	**17,229**	**6**	15,937	4
Transportation	**16,667**	**5**	27,108	7
Retail	**16,309**	**5**	26,712	7
Other	**29,521**	**9**	30,324	8
	$ 316,937	**100**	$ 381,868	100

The Company's credit exposure relating to its managed receivables by industrial sector was as follows:

	June 30, 2020		June 30, 2019	
Industrial Sector (in thousands)	**Managed receivables**	**% of total**	Managed receivables	% of total
Retail	**$ 16,986**	**85**	$ 18,132	72
Wholesale and distribution	**365**	**2**	5,696	23
Other	**2,607**	**13**	1,182	5
	$ 19,958	**100**	$ 25,010	100

As set out in notes 3(d) and 4, the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables in accordance with IFRS 9. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

(b) Liquidity risk

The Company's financial assets and liabilities at June 30, 2020 by maturity date were as follows:

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash	$ 14,735	$ —	$ —	$ —	$ —	$ —	$ 14,735
Finance receivables and loans	152,425	52,493	46,945	47,735	17,339	—	316,937
All other assets	7,744	—	—	—	—	—	7,744
	$ 174,904	$ 52,493	$ 46,945	$ 47,735	$ 17,339	$ —	$ 339,416
Financial liabilities							
Bank indebtedness	$ 185,398	$ —	$ —	$ —	$ —	$ —	$ 185,398
Loan payable	14,107	—	—	—	—	—	14,107
Notes payable	4,936	12,208	—	—	—	—	17,144
Convertible debentures	—	—	—	23,211	—	—	23,211
All other liabilities	13,834	469	252	73	79	152	14,859
	$ 218,275	$ 12,677	$ 252	$ 23,284	$ 79	$ 152	$ 254,719

The Company's financial assets and liabilities at June 30, 2019 by maturity date were as follows:

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash	$ 3,553	$ —	$ —	$ —	$ —	$ —	$ 3,553
Finance receivables and loans	207,318	67,977	48,369	33,270	24,929	5	381,868
All other assets	2,329	—	—	—	—	—	2,329
	$ 213,200	$ 67,977	$ 48,369	$ 33,270	$ 24,929	$ 5	$ 387,750
Financial liabilities							
Bank indebtedness	$ 250,696	$ —	$ —	$ —	$ —	$ —	$ 250,696
Loan payable	7,246	—	—	—	—	—	7,246
Notes payable	7,250	—	12,159	—	—	—	19,409
Convertible debentures	—	—	—	—	17,134	—	17,134
All other liabilities	9,789	1,710	—	—	—	—	11,499
	$ 274,981	$ 1,710	$ 12,159	$ —	$ 17,134	$ —	$ 305,984

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, loan payable, notes payable, convertible debentures, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling approximately $385,000,000 have been established with a syndicate of banks, as well as a non-bank lender, bearing interest varying with the bank prime rate or Libor. At June 30, 2020, the Company had borrowed $199,504,642 (December 31, 2019 – $254,008,197, June 30, 2019 – $257,942,257) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under its bank line of credit during the six months ended June 30, 2020 and 2019. At June 30, 2020, BondIt was compliant with all covenants with its non-bank lender, while it had failed a specific covenant test at June 30, 2019, which the lender subsequently waived. See note 10.

Notes payable of $2,356,737 are due on, or within a week of demand, while BondIt notes totalling $2,579,440 are repayable at various dates the latest of which is January 31, 2021. Long-term notes payable of $12,207,600 entered into on August 1, 2018 mature on July 31, 2021 (see note 11(a)). Notes payable are to individuals or entities and consist of advances from shareholders, directors, management, employees, other related individuals and third parties. At June 30, 2020, 86% (2019 – 86%) of these notes were due to related parties and 14% (2019 – 14%) to third parties. The Company's convertible debenture liability was $23,211,453 at June 30, 2020. These debentures mature on December 31, 2023. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months. At June 30, 2020, the Company had gross finance receivables and loans totalling $316,936,925 (December 31, 2019 – $373,157,083, June 30, 2019 – $381,868,312) which substantially exceeded its total liabilities of $261,179,788 at that date (December 31, 2019 – $309,846,192, June 30, 2019 – $310,300,087). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments. The objective of managing market risk is to control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Currency risk

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, due to clients and notes payable. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At June 30, 2020, the Company's unhedged foreign currency positions in its Canadian operations totalled $131,000 (December 31, 2019 – $11,037,000, June 30, 2019 – $21,000). Of the unhedged position at December 31, 2019, $10,677,000 resulted from the dissolution of a foreign subsidiary on December 31, 2019. This position was subsequently closed in early January 2020 resulting in a small foreign exchange gain. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the Company's foreign currency holdings against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

Interest rate risk pertains to the risk of loss due to the volatility of interest rates. The Company's lending and borrowing rates are usually based on bank prime rates of interest or Libor and are typically variable. The Company actively manages its interest rate exposure, where possible. The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. As the Company's floating rate finance receivables and loans are currently similar to its floating and short-term fixed rate (usually 30 days) borrowings, the Company's exposure to interest rate risk is not significant. However, as the Company's equipment finance business continues to grow the Company expects it will deploy interest rate hedges in the near future where certain bank borrowings or other debt is matched up with fixed rate term maturities in our equipment finance businesses.

The following table shows the interest rate sensitivity gap at June 30, 2020:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets						
Cash	$ 12,883	$ —	$ —	$ —	$ 1,852	$ 14,735
Finance receivables and loans, net	145,088	43,850	108,654	19,345	(6,656)	310,281
All other assets	—	4,410	—	—	26,730	31,140
	157,971	48,260	108,654	19,345	21,926	356,156
Liabilities						
Due to clients	—	—	—	—	1,852	1,852
Bank indebtedness	28,946	157,257	—	—	(805)	185,398
Loan payable	14,107	—	—	—	—	14,107
Notes payable	2,356	2,579	12,208	—	—	17,143
Convertible debentures	—	—	—	23,211	—	23,211
All other liabilities	—	1,015	—	—	18,454	19,469
Equity	—	—	—	—	94,976	94,976
	45,409	160,851	12,208	23,211	114,477	356,156
	$ 112,562	$(112,591)	$ 96,446	$ (3,866)	$ (92,551)	$ —

Based on the Company's interest rate positions as at June 30, 2020, a sustained 100 basis point change in interest rates across all currencies and maturities would change net earnings by an insignificant amount over a one year period.

22. Capital disclosure

The Company considers its capital structure to include equity and debt; namely, its bank indebtedness, loan payable, notes payable and convertible debentures. The Company's objectives when managing capital are to: (a) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (b) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (c) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk. The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares or debt, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. At June 30, 2020, as a percentage, these ratios were 253% (December 31, 2019 – 307%, June 30, 2019 – 309%) and 27% (December 31, 2019 – 24%, June 30, 2019 – 23%), respectively. The Company's debt and leverage will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at June 30, 2020, the Company is required to maintain a debt to TNW ratio of less than 3.5 on its syndicated bank facility. BondIt, which has entered into a loan facility with a non-bank lender, is required to maintain a TNW of at least US$5,000,000. There were no changes in the Company's approach to capital management from previous periods.

23. Subsequent events

At July 29, 2020, there were no subsequent events occurring after June 30, 2020 that required disclosure or adjustments to the financial statements.

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario [2, 3]

Simon Hitzig, Toronto, Ontario

David Beutel, Toronto, Ontario [1, 3]

Jean Holley, Alpharetta, Georgia [2]

Gary Prager, Wake Forest, North Carolina [1, 3]

Stephen D. Warden, Oakville, Ontario [1, 2]

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Credit Committee

Officers

Ken Hitzig, Chairman of the Board

Simon Hitzig, President & CEO

Stuart Adair, Senior Vice President,
Chief Financial Officer

Irene Eddy, Senior Vice President,
Capital Markets

Cathy Osborne, Senior Vice President,
Human Resources

Jim Bates, Secretary

Subsidiaries

Accord Financial Ltd.
Jim Bates, President

Accord Financial Inc.
Jason Rosenfeld, President

Accord Financial, Inc.
Terry Keating, President

Accord Small Business Finance (Varion Capital Corp.)
James Jang, President

Accord CapX LLC
Jeff Pfeffer, President

BondIt Media Capital
Matthew Helderman, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

Bank of Montreal
The Bank of Nova Scotia
Branch Banking and Trust
Canadian Imperial Bank of Commerce
HSBC Bank Canada
M&T Bank
The Toronto-Dominion Bank

Stock Exchange Listings

Toronto Stock Exchange Symbols:
Common Shares: ACD
Convertible Debentures: ACD.DB

Registrar & Transfer Agent

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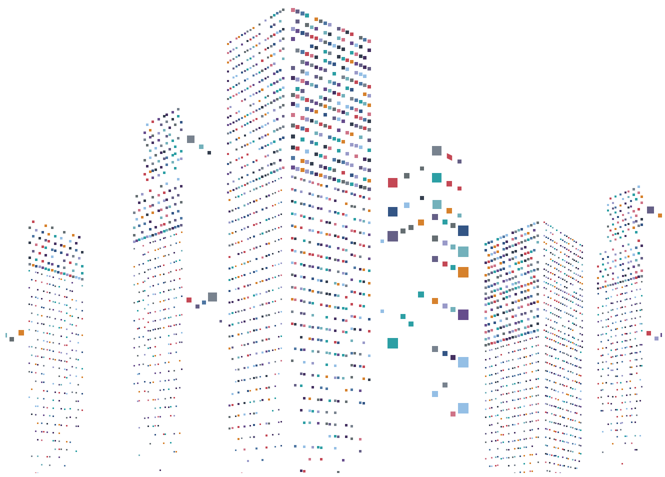

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